

LONG TERM CARE FACILITIES

Cost

Accounting and

Rate

Evaluation



NEW JERSEY
DEPARTMENT OF HEALTH AND SENIOR SERVICES,
AND DEPARTMENT OF HUMAN SERVICES



CHART OF ACCOUNTS

The Chart of Accounts included herein is the minimum chart required to satisfy the Department's reporting requirements. The accounts are keyed to the schedule line or column of the reports to which the account total is to be entered for reporting to the Department.

Homes may provide additional detail accounts in their records when required for internal management purposes or for third party reimbursement purposes. If this is the case, these accounts would be summarized when preparing the Department's reports.

Moreover, all required accounts need not be posted routinely. It will be sufficient for the Department's purposes if homes maintain their records in such a way that the reports to the Department can be prepared at year end by means of worksheet adjustments.

Homes subject to income taxes should, of course, continue to maintain appropriate records for tax purposes.

New general ledger account numbers have not been developed for the Department's Chart of Accounts. For reference the numbers associated with similar accounts in the American Nursing Home Association and Reynolds & Reynolds systems are shown.

Where appropriate, typical items to be included in an account are shown. As indicated above, homes may elect to provide separate accounts for many of these items.

NOTES TO CHART OF ACCOUNTS

Under "Notes" on the accompanying Definitions and Accounts (for both revenue and expense items) are references to special reporting requirements to be considered by homes in establishing general ledger accounts and subsidiary records.

Note *

- A For internal management and for Medicare reimbursement purposes, additional accounts for subsidiary records may be required for the various individual services which comprise these services.
- B For internal management and for Medicare reimbursement purposes, additional accounts or subsidiary records by funding source may be required.
- C Separate revenue and expense accounts should be established for items where revenues or expenses exceed \$10 per bed per year.
- D Separate accounts and/or subsidiary records should be established to account for expenses relating to owners and related organizations as required to complete Schedule F.
- E Separate accounts and/or subsidiary records must be maintained for the expenses of any special fringe benefits applicable to owner-employees in order to complete Schedule F and in order to permit and equitable distribution of special fringe benefit expenses on Schedule A.

- F Sufficient subsidiary records must be maintained.
- G Where there is commingling of costs or revenues there should be ongoing records and accounts that separate these costs or revenues. In the absence of specific records commingled cost or revenue should be separated on allocation basis that will produce reasonably accurate costs or revenues for that functions defined.

In summary, while the Department prescribes the underlying accounting practices to be followed, it has provided the homes with a great deal of flexibility as to how their Chart of Accounts may be integrated with the recommended Chart of Accounts.

DEFINITIONS AND ACCOUNTS

These accounts are presented in accordance with the reporting requirements described for Schedules in the Reporting Section of these instructions. The use of the recommended accounts will facilitate the completion of the Schedules in the form required by the Department.

EXPENSES - DEFINITIONS AND ACCOUNTS

Expenses are classified into two categories for reporting to the Department. These categories are defined as follows:

. Routine Expenses/Services

All services provided by the facility that do not require physician orders except where physician orders require utilization of nursing staff; i.e., administering of medications and treatments prescribed by physicians. Services promulgated by the State which are not part of the all inclusive rate, even though routine, should not be included in costs; i.e., physical therapy, personal comfort items, etc. For more detail on routine services, see: FEDERAL REGISTER, VOL. 41, NO. 128, PART V, MEDICAL ASSISTANCE PROGRAM, SECTION 250.30 (B)

(III) (1) THROUGH (6) as follows:

(B) Costs of routine services: Allowable costs shall include all items of expense which providers incur in the provision of routine services. Routine services means the regular room, dietary and nursing services, minor medical and surgical supplies, and the use of equipment and facilities. Examples of expenses that allowable costs for routine services must include are:

(1) All general services including but not limited to administration of oxygen and

- related medications, handfeeding, incontinency care, tray service, and enemas;
- (2) Items furnished routinely and relatively uniformly to all patients, such as patient gowns, water pitchers, basins and bed pans;
- (3) Items stocked at nursing stations or on the floor in gross supply and distributed or used individually in small quantities; such as alcohol, applicators, cotton balls, band-aids, antacids, aspirin (and other non-legend drugs ordinarily kept on hand), suppositories, and tongue depressors;
- (4) Items which are used by individual patients but which are usable and expected to be available, such as ice bags, bed rails, canes, crutches, walkers, wheelchairs, traction equipment, and other durable medical equipment.
- (5) Special dietary supplements used for tube feeding or oral feeding such as elemental high nitrogen diet, even if written as a prescription item by a physician (because these supplements have been classified by the Food and Drug Administration as a food rather than a drug);

"Non-Routine Expenses"

Includes all expenses related to services rendered that are not included in the State's per deim reimbursement rates under Medicaid, such as laboratory tests, radiology, etc. Also included are miscellaneous expense items which do not relate directly to patient care.

The Department expects that costs reported in each category will reflect the services performed. It may be necessary to allocate costs appearing on certain general ledger accounts to several reporting categories. For example, if the organization of a home results in a single department for both the nursing and housekeeping functions and the personnel have been grouped under a single account called Nursing Services salaries, for reporting to the Department the housekeeping portion of the account should be reported under housekeeping.

EXPENSE ACCOUNTS

Routine Expenses

ACCOUNT CROSS
REFERENCE

(X)

REPORTING *

SCHEDULE A

LINE COLUMN ACCOUNT DESCRIPTION

A.

N.

H.

A.

R & R

NOTES

2-5 A Hours
7-9, 11
22, 24, 26
28-30&33

This should represent paid hours for all employees, including hours paid and not worked for reasons such as vacation, holidays and sickness. For overtime pay include the straight time, but exclude premium hours. For nursing you are required to set up your accounting records to record:

- Hours of contracted (non-employee) nurses, according to RN's LPN's and Other. It is not requested to record hours for non-nursing contracted services.
- Hours paid not worked, (vacation, holiday, etc.) separate from hours worked for schedule D reporting only.

1 B General Fringe Benefits 605, 615 604, 614 F
Include the cost of fringe benefits that apply equitably to all employees. Include the cost of employee benefits required by law, including employer's portion of payroll taxes, and employee benefits offered by contract or policy. 701X, 706 624, 634X
711X, 746 644X, 654X
751X, 776 734, 744
781, 786 754, 764
791, 801 804, 807
811, 821 817, 844

- Employee benefits currently required by law include:
FICA, State and Federal Unemployment Compensation and Workman's compensation.

* Also report on other Schedules as required.

(X) Account numbers with a suffix "X" could require an adjustment or allocation in reporting amounts from books to Schedule A in conformity with these definitions.

EXPENSE ACCOUNTS

Routine Expenses

ACCOUNT CROSS
REFERENCE (X)

A.
N.
H.

A. R & R NOTES.

888X 815X F

ORTING *
EDULE A
e Column

ACCOUNT DESCRIPTION

Special Fringe Benefits

Include the cost of any fringe benefits that are not generally available to most employees. Record these costs by the cost center (s) to which the benefiting employees are charged.

B
11
24
& 28-
33

General Services:

A&B

Management-Hours and Salary

Include the hours and salary for all related parties who work at the facility in an administrative or management capacity. Also include related parties that work less than 20 hours per week in other cost centers. Details of this cost center are on Schedule A-1.

860X,861 801 D,E

C

Management-Fees and Other Expenses

Include the costs of management services provided by another party, including related parties. Include allocations of home office expenses to the extent provided for management services. Home office expense allocations must be cost related and made consistent with medicare regulations.

866,869X 813 D

- . Include all cost as detailed on Schedule A-1.
- . Report auto expense for autos used primarily by personnel, in the management center.
- . Outside directors' fees and franchise fees paid for the facility's right to use a corporate name. Directors' fees are allowable to the extent of \$50 per director (max.5) per meeting (max.4), \$1,000.

900 815

EXPENSE ACCOUNTS

Routine Expenses

ACCOUNT CROSS
REFERENCE (X)

REPORTING *
SCHEDULE A
LINE COLUMN

ACCOUNT DESCRIPTION

A.
N.
H.
A.

R & R

NOTES

3 A&B Administrator - Hours and
Salaries

861

801

D,E

Report the hours, salaries of
the administrator, irrespective
of specific duties performed for
any other functions. (Detailed
on Schedule A-1).

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A		ACCOUNT DESCRIPTION	ACCOUNT CROSS REFERENCE (X)		NOTES
LINE	COLUMN		A. N. H. A.	R & R	
3	C	<u>Administrator - Fees and Other Expenses</u> Report all Administrators costs as detailed on Schedule A-1.	867,871 884,888 917,945 975	806,807 815,816 829	
4	A&B	<u>Other Administrative - Hours and Salary</u> Include the hours and salaries for assistant administrators (s), accounting and data processing personnel, telephone operators, admitting personnel, chauffeurs, medical records, nursing administration, inservice education and all other administrative and clerical. (Detail on Schedule A-2).	600,610 775,862 863,867	801,802	E, F
4	C	<u>Other Administrative - Fees and Other Expenses</u> Include the remainder of Other Administrative costs, examples of which are as follows: . Office Supplies and Printing - All Stationery, postage, printing, bookkeeping and various office supplies, newspapers and periodicals. . Communications - Telephone and telegraph charges for communications and equipment services. Rental fees on general internal communication and paging systems.	867,869X 880-1-884 890,897 902,910 917-1, 917-2,930 940,952 979X,915	805,806 808,810- 812,814 829,809	

EXPENSE ACCOUNTS

Routine Expenses

REPORTING *
SCHEDULE A
LINE COLUMN

ACCOUNT CROSS
REFERENCE (X)

A.

N.

H.

A.

R & R

NOTES

ACCOUNT DESCRIPTION

Licenses and Dues - Fees for institutional licenses and dues for institutional memberships in professional associations.

Professional Services - Fees for the services of public accountants and auditors. Fees to attorneys for collection of residents' accounts and fees and expenses for legal services associated with the operation of the facility. (Legal fees and expenses incurred in acquiring real estate should be added to the cost of the property purchased rather than be charged to this account.)

Professional Services should be reasonably related to patient care.

Insurance - the Expense applicable to the reporting period of all institutional insurance not related to property or employees.

Data Processing - The expenses of operating a data processing department and/or the fees paid an outside firm for computer services. If Services are identifiable to the actual using account they can be applied directly.

D

D

D

EXPENSES ACCOUNTS

Routine Expenses

ACCOUNT CROSS
REFERENCE (X)

REPORTING *
SCHEDULE A
LINE COLUMN

A.
N.
H.
A. R & R NOTES

4 C Travel - all Administrative travel and expenses incurred in traveling to out-of-town conferences, conventions and institutes. Report travel on Schedule A, A-1, and A-2. D, E

Advertising - Bold Print Directory Advertising and recruitment of employees.

Miscellaneous - Medical Records and all administrative expenses not provided for under specific accounts.

Freight and Cartage - Expenses incurred for freight, express and postage.

Include allocations of home office expenses only to the extent not provided for management services, which would include functions such as business office/ data processing. D

5 A&B Dietary - Hours and Salaries 800 731 F

Includes hours and Salaries of dietitians, chefs, cooks, dishwashers, and all other employees assigned to the kitchen, dining room or cafeteria.

EXPENSE ACCOUNTS

Routine Expenses

REPORTING *
SCHEDULE A

LINE COLUMN

ACCOUNT DESCRIPTION

ACCOUNT CROSS
REFERENCE (X)

A.

N.

H.

A.

R & R

NOTES

5 C Dietary - Fees and
Other Expenses
Includes the cost of dishes,
glassware, silverware, paper
products used in kitchen,
dining room and on residents'
trays, kitchen utensils, soaps
and detergents, menus, aprons,
and uniforms for dietary per-
sonnel and all other miscellan-
eous supplies and expenses.
Include the cost of outside
contracted services here, if
costs are booked separately
from Food.

804,806X 738,739X F

6 C Food - Fees and
Other Expenses
Include the cost of food pre-
pared in the regular kitchen,
including special diets. If
desired, separate accounts
may be maintained for the
major types of food such as
meat, fish, etc. Donated
food and government surplus
food commodities should be
charged to this account at
a fair market value. Where
the food consumed by resi-
dents and the staff is pro-
duced on a farm operated by
the facility, an estimate
should be made, if feasible
of the fair market value of
the foodstuffs and charged
as an additional food cost.
Otherwise, the costs of farm
supplies, labor and the main-
tenance of farm equipment
should be classified as food
costs. Include the cost of
outside contracted services
here only if such costs are
not booked separate from
Food.

803,806X 735,739X

EXPENSE ACCOUNTS

Routine Expenses

ACCOUNT CROSS
REFERENCE (X)

REPORTING *
SCHEDULE A

LINE COLUMN

ACCOUNT DESCRIPTION

A.
N.
H.
A.

R & R

NOTES

7 A&B Laundry and Linen -
Hours & Salaries
Including hours and salaries
of laundry employees and those
handling linen, such as seam-
stress, laundrymen, and ironers.

810

741

F

7 C Laundry and Linen - Fees and
Other Services
This account includes the cost
of linen, bedding, sheets, mat-
tresses, pillows, pillow cases,
blankets, towels, and washcloths.
Laundry soap, bleaches, detergents,
starch, pressing clothes, personal
laundry except for dry cleaning,
contracted services and all other
expenses applicable to laundry and
linen services.

813,814 745-749

8 A&B Housekeeping - Hours
and Salaries
Includes hours and salaries of
housekeepers, maids, porters,
floor and wall washers and other
housekeeping employees.

820

751

8 C Housekeeping - Fees
and Other Expenses
Includes the cost of brooms
brushes, cleaning compounds,
disinfectants, drinking cups,
germicides, insecticides,
lavatory supplies, mops, paper
towels, polish, soap, and
other expense. Also include
the cost of drycleaning of
drapes, rugs and slipcovers,
and the cost of contracted
services.

824,826 758,759
829

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A		ACCOUNT DESCRIPTION	ACCOUNT CROSS REFERENCE (X)		NOTES
LINE	COLUMN		A. N. H. A.	R & R	
9		<u>Other General Services</u> Includes all other general service functions not defined above.			
9	A&B	<u>Other General Services Hours and Salaries</u> Include the hours and salaries for all employees operating the above functions.	775,780 785,790	841	F
9	C	<u>Other General Services - Fees and Other Expenses</u> Include expenses not detailed above (attach detailed list for other General Service Expenses).	777-779, 782-784, 787-789, 792-798	845-849	

Property Operating:

		<u>Maintenance</u> Exclude items of a caretaking nature such as snow removal, exterminating, routine grounds maintenance, window cleaning, grass cutting, security services, etc. which should be reported in other general services.			F
11	A&B	<u>Maintenance - Hours and Salaries</u> Include the hours and salaries of carpenters, electricians, engineers, firemen, heating plant employees, machinists, painters, plumbers, elevator operators and other employees engaged in the operation or maintenance of the building, equipment and grounds. Include only those costs that are expensed; do not include any of those costs that are capitalized.	830	761	F

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A		ACCOUNT CROSS REFERENCE		(X)	
LINE	COLUMN	ACCOUNT DESCRIPTION	A.	R & R	NOTE
11	C	<u>Maintenance Fees and Other Expenses</u>	808,818,	776-778,	F
		Include all non-salary,	828,834-	779	
		non-capitalized costs of	839,859		
		grounds, building and	900,962		
		equipment, such as the			
		following:			
		• Maintenance and Repairs			
		Supplies - Supplies and			
		parts required to repair			
		and maintain the facility			
		as well as parts required			
		to repair and maintain the			
		equipment used by this			
		department.			
		• Ladders, lumber, metal			
		working tools, paint, and			
		plumbing supplies, etc.			
		• Purchased Services - Contract			
		fees for repairs and service.			
		• Fees for inspections of boilers			
		and elevators, and landscaping			
		fees.			
		• Include amounts paid by lessor			
		for maintenance, and net from			
		Rentals.			
12&13	C	<u>Property Taxes</u>	844	777	
		Include taxes paid or due for			
		the reporting period on land			
		and building owned and used			
		by the facility. Report taxes			
		separately for land and building.			
		• Report current assessment			
		data on Schedule E.			
		• Include amounts paid by lessor			
		for property taxes, and net			
		this amount from Rentals.			

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A		ACCOUNT CROSS REFERENCE (X)		NOTES
LINE	COLUMN	ACCOUNT DESCRIPTION	A. N. H. A.	R & R
14	C	<u>Utilities</u> Include the cost of the facility's utilities, such as: heating fuels, electricity, gas, water and sewage. Separate accounts may be maintained, if desired. Include amounts paid by lessor for utilities, and net this amount from Rentals.	852-855	876-768
15	C	<u>Property Insurance</u> Include the premium cost of all insurance on the property of the facility, such as fire, theft, comprehensive, etc. Premiums on auto insurance should be included on Schedule A, line 2 and/or 3 column C as applicable. Include amounts paid by lessor for property insurance, and net this amount from Rentals.	848	775
17	C	<u>Depreciation and Amortization</u> Asset values, and lives, used to calculate depreciation and amortization on your tax return should coincide with the reporting of this cost on Schedule A. *All depreciation must be calculated by the straight line method. This account would normally include:	805,815 825,845 846,945 905X	770-774, F 816

EXPENSE ACCOUNTS

Routine Expenses

REPORTING *
SCHEDULE A
LINE COLUMN

ACCOUNT CROSS
REFERENCE (X)

A.
N.
H.
A.

R & R

NOTES

ACCOUNT DESCRIPTION

- . Depreciation of Building -
The Cost of the building
should be determined and
depreciation prorated over
its expected life, and
the annual amount charged
to this account.
- . Depreciation of Building
Improvements or Amortiza-
tion of Leasehold Improve-
ments - Depreciation on
items of building improve-
ment. These items are to
be distinguished from
repairs and maintenance
of buildings. It is recom-
mended that the Certified
Public Accountant or inde-
pendent accountant, re-
tained by the facility,
be consulted for determi-
nation of the correct
classification.
- . The pro-rata share of
leasehold improvements.
 - .. Major changes to
facility, necessary
for operations, where
a lease is in effect.
- . Depreciation of Building
Equipment - Depreciation
on items of fixed equip-
ment that are affixed to
the building (not subject
to transfer or removal)
that have a fairly long
life.
 - Includes boilers, all
systems, heating, fixtures,
piping and sprinkler systems.

EXPENSE ACCOUNTS

Routine Expenses

REPORTING *
SCHEDULE A

LINE COLUMN

ACCOUNT CROSS
REFERENCE

A.
N.
H.
A.

R & R

NOTES

ACCOUNT DESCRIPTION

- . Depreciation of Office Furniture and Fixtures - The cost of the office furniture and fixtures should be prorated over the expected life and the annual amount charged to this account.
- . Depreciation of Departmental Equipment - Depreciation on items of major equipment that, though capable of being moved, have a more or less fixed location in the facility and have a minimum life of about three years. Includes beds, chairs, floor polishers, office machines, stove, washing machines. Motor vehicles other than reported on lines 2, 3 or 4 of Schedule A.
- . Separate accounts may be maintained, if desired. Detail records maintained should, at a minimum, satisfy the requirements of taxing authorities and any other affected agencies.
- . Depreciation of autos should be included on Schedule A, lines 2, 3 or 4 per instructions.

18	C	<u>Net Rentals and Leases</u>	812,832	769	D,F
		Include the rental cost	843,895		
		for all property leased	961		
		by the facility.			

- . Report equipment leasing costs on Schedule E for current expenditures.

EXPENSE ACCOUNTS

Routine Expenses

REPORTING *
SCHEDULE A
LINE COLUMN

ACCOUNT CROSS
REFERENCE

(X)

A.
N.
H.
A.

R & R

NOTES

ACCOUNT DESCRIPTION

- . Amounts paid by lessor for property taxes, etc. should be netted from line 18 and reported on line (s) 11 through 15 as applicable.
- . Leasing of autos should be reported on Schedule A lines 2 and/or 3 per the instructions.
- . Include the costs of financing and operating leases.
- .. Financing Leases - Upon expiration of the lease there is an option to purchase the equipment financed for substantially less than fair market value.
- .. Operating Lease - Cost is for the use of the equipment, and there is no option to purchase at substantially less than fair market value upon expiration of lease.

19

C

Interest (All)

980-981 851-852

Include interest costs arising from all forms of indebtedness, such as mortgages, other obligations for property, notes, finance charges, loans from banks loans from other entities and individuals and inter-company advances.

EXPENSE ACCOUNTS

Routine Expenses

ACCOUNT CROSS
REFERENCE (X)

A.

N.

H.

A.

R & R

NOTES

REPORTING *

SCHEDULE A

LINE COLUMN

ACCOUNT DESCRIPTION

- Report details of related parties' interest on Schedule F, part 1.

21

C

Special Amortization

950X, 985X

Include amortization of special expenditures deferred, per agreement with Department.

- Report details on Schedule D, lines 21 and 22.

Patient Care:

Include the cost of all routine patient care services as previously defined. Currently, this includes: medical director fees, patient activities, pharmaceutical consultant, non-legend drugs, medical supplies, social services and oxygen. Include routine direct costs only. Examples of routine indirect costs and their inclusion are as follows:

- Uniforms and other specialized items of expenses should be reported on schedule A, line 7 (Laundry and Linen)
- Administrative, such as secretarial, office supplies and travel expenses should be included on Schedule A, line 4. Travel expenses will also be reported on Schedule A-1 and A-2.
- Medical records librarian should be reported in other administrative, Schedule A, line 4.

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A LINE	COLUMN	ACCOUNT DESCRIPTION	ACCOUNT CROSS REFERENCE (X)		NOTES
			A. N. H. A.	R & R	

Maintenance of departmental equipment should be included on Schedule A, line 11.

DEFINITIONS OF ROUTINE PATIENT CARE COSTS ARE AS FOLLOWS:

22	A&B	<u>Nursing RN's - Salaried, Hours and Salaries</u> Include the hours and salaries of all employee-Registered Nurses (RN's) and Director of Nurses.	600,601 610,611 924	601,611 621	E
23	A&B	<u>Nursing RN's - Contracted, Hours and Fees</u> Include the hours and cost for contracting the services of all non-employee - Registered Nurses (RN's).	609X,619X	609X,619X 629X	
23	A&B	<u>Nursing, LPN's - Salaried, Hours and Salaries</u> Include the hours and salaries of all employee-Licensed Practical Nurses (LPN's).	602,612 924	602,612, 622	E
25	A&B	<u>Nursing, LPN's - Contracted, Hours and Fees</u> Include the hours and cost for contracting the services of all non-employee-Licensed Practical Nurse (LPN's).	609X,619X	609X,619X 629X	
26	A&B	<u>Nursing, Other-Salaried, Hours and Salaries</u> Include the hours and salaries of all other nursing employees such as nursing assistants and orderlies.	603,613 924	603,613 623	E

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A		ACCOUNT DESCRIPTION	ACCOUNT CROSS REFERENCE (X)		NOTES
LINE	COLUMN		A.	R & R	
			N.		
			H.		
			A.		
27	A&B	<u>Nursing, Other-Contracted, Hours and Fees</u> Include the hours and con- tracted cost of all other non-employee nursing per- sonnel, such as nursing assistants and orderlies.	609X,619X	609X,619X 629X	
28	A&B	<u>Medical Director Hours and Salaries</u> Include the hours and salaries, for medical director, spent in ren- dering routine patient care service.	700X	631X	E
28	C	<u>Medical Director Fees</u> Include the cost of all medical director fees for rendering administra- tive services.	702X	636X	
29	A&B	<u>Patient Activities Hours and Salaries</u> Include the hours and salaries for rendering routine patient care services for all licensed professionals, or the equivalent, other than nurses and physicians. Exclude Pharmacists - Include Pharmaceutical Consultant on Schedule A, line 30.	740		F

NOTE: Nursing administrative costs such as medical records librarian
nurses training and other nursing costs of an administrative
nature, not preprinted on Schedule A. lines 22-34, should be
reported on Schedule A-2, "Other Administrative".

EXPENSE ACCOUNTS

Routine Expenses

REPORTING *
SCHEDULE A
LINE COLUMN

ACCOUNT DESCRIPTION

ACCOUNT CROSS
REFERENCE (X)

A.

N.

H.

A.

R & R

NOTES

29 C Patient Activities Fees and
Other Expenses
Include the fees for
routine patient care.
Exclude any costs of
nurses, physicians,
drugs, medical supplies
equipment rental, etc.
Include social, intellec-
tual, cultural, recrea-
tional and religious
activities.

740-744

780-784

30 A,B,&C Pharmaceutical Consultant
Hours, Salaries and Fees
Include the fees or
salaries for Pharma-
ceutical Consultant
services.

712

E

31 C Non-Legend Drugs
Include over-the-counter
drugs which can be pur-
chased without a pre-
scription. Also included
are medicine chest supplies
and personal comfort items
(e.g. mouthwash, talcum
powder, massage lotions
etc.) Do Not Include Pre-
scribed drugs or intraven-
ous solutions.

645

EXPENSE ACCOUNTS

Routine Expenses

REPORTING * SCHEDULE A		ACCOUNT CROSS REFERENCE (X)		
LINE	COLUMN	ACCOUNT DESCRIPTION	A. N. H. A.	R & R NOTES
32	C	<u>Medical Supplies</u> Includes items such as incontinency pads, bandages, dressings, compresses, sponges, plasters, tapes, cellucotton or disposable items (e.g. colostomy bags, chuxs) also, hot water bags, thermometers, catheters, rubber gloves and supplies required in the administering of medications, including disposal syringes. (Do Not Include Drugs.)	607,617 703,713 748,763	608,618 628,638 648,658 688
33	A,B&C	<u>Social Service Hours, Salaries and Fees</u> Includes the evaluating and identifying of social needs or problems existing in interpersonal relationships and activities in the facility and with the patients' family. Provides ongoing counseling of patients, next of kin and/or spouse. For further explanation see Manual of Standards for Nursing Homes.		
34	C	<u>Oxygen</u> Include the costs for routine patient services.	735- 739	

EXPENSE ACCOUNTS

Non-Routine and Non-Allowable

(Schedule A-3 Columns A, B and C)

ACCOUNT CROSS
REFERENCE (X)

A.

N.

H.

A.

R & R

NOTES

ACCOUNT DESCRIPTION

Include the costs of all non-routine patient care services and miscellaneous functions per the definition of services not reimbursed through the Medicaid Per Diem as specified by the state.

Any costs that do not reasonably relate to the operation of the nursing facility (i.e., investment properties, personal expenses) will be considered non-routine/non-allowable for reporting purposes and should not be included in net routine expenses reported on Schedule A, Column E.

The following are some examples of services and functions, the expenses of which are currently defined as Non-Routine and Non-Allowable:

. Laboratory and X-ray	720-724	
. Radiology	730-734	
. Speech Therapy	715-719	
. Respiratory Therapy	735-739	
. Physical Therapy		
. All Personal Expenses	798	687

EXPENSE ACCOUNTS

Non-Routine and Non-Allowable

(Schedule A-3)

<u>ACCOUNT DESCRIPTION</u>	<u>ACCOUNT CROSS REFERENCE</u> (X)	
	A.	
	N.	
	H.	
	<u>A.</u>	<u>R & R</u>
. Pharmacy, Non-Routine portion	710X-714X	641X-649X
. Medical Supplies, Non-Routine portion	609X, 619S 750X-754X	608X, 618X 619X
. Special Care	760-764	681-689
. Physicians Services except for Medical Director	700-704X	631X-639X
. Dental Services	760-764	671-679
. Utilization Review	913	813X
. Contractual adjustments, Bad Debts and All Other Revenue Deductions	500-734	401-451
. Fund Raising Expenses	959	829X
. Income Taxes	914	859
. Loss on disposal of assets	979X	853
. Amortization of Organization Costs	950X	829X
.. All costs incurred in organizing, to include legal and accounting fees. Amortization of start up costs are allowable, to include costs reasonably related to patient care.		

NOTE: If the nursing facility contains other than a nursing unit (residential, sheltered, out-patient wing, etc.) the appropriate expenses should be allocated out of the nursing unit and reported on Schedule A, Column F.

All non-routine/non-allowable expenses should be reported on schedule A-3 and carried forward to schedule A, line 36.

REVENUES

For reporting purposes, there are six broad classes of revenues for which records are to be maintained in sufficient detail to permit the preparation and audit of reports furnished to the Department of Human Services and the Department of Health.

	<u>Reporting Schedule</u>
(1) Routine patient care gross revenues	B
(2) Incidental revenues (expense recoveries)	A-4
(3) Other operating revenues	A-3
(4) Restricted income -operating	A-4
(5) Restricted income - capital	-
(6) Unrestricted income	D

The following pages define these classes of revenues and describe the detailed accounts that are to be maintained in each home's records.

1 - Routine Patient Care Gross Revenues

Definition

Gross revenues are to be reported on the accrual basis for providing routine patient care services, prior to any provision for bad debts or doubtful accounts.

For Medicaid patients, these gross revenues are equal to the applicable per diem rates multiplied by the applicable Medicaid patient days. The breakdown of the payment between patient sources and the state has no bearing on the determination of routine patient care revenues for Medicaid patients.

For Medicare patients, these gross revenues are the amount that the home expects to realize from providing routine patient care services to Medicare patients during the reporting period. As with Medicaid gross revenues, the fact that part of these revenues may be derived from patient sources is ignored in determining gross revenues.

For private patients, these gross revenues are the total amount of charges billable to private patients for services provided during the reporting period.

A patient is classified as "other" if the majority of his charges are to be paid by third party payors other than Medicare and Medicaid. Gross revenues for these patients are the amount the home expects to realize from providing routine patient care services to them.

Details Required

Details are required for each combination of payor and class as follows:

<u>Payor</u>	<u>Class</u>
Private	Skilled
Medicaid	ICF A
Medicare	ICF B
Other	Other (Sheltered Care, etc.)

Patient days are also to be recorded for each combination of payor and patient class.

Unclassified patients who receive routine nursing care are to be reported as ICF-A patients.

Reporting

Gross Revenues - Schedule B, Part B, Lines 1 - 5

Patient Days - Schedule B, Part A, Line 1 - 5

2 - Incidental Revenues (Expense Recoveries)

Definition

Expense recoveries are incidental revenues realized
· for other than patient care services, and
· where related expenses are reported as allowable
routine costs (i.e. included in the "Total Patient
Care" cost totals on Schedule A)

Typical examples include:

- Telephone charges to employees or patients
- Meals sold to employees and guests
- Rental income from other than routine Patient Care
- Medical supplies sold to employees

Details Required

These revenues are to be reported as offsets against the costs of the cost center in which the majority of expenses are reported. Accordingly, separate accounts should be maintained for incidental revenues for each cost center affected. Where the cost center relationship is not clear, these revenues should be recorded as expense recoveries relating to "Other Administrative" expenses.

Reporting

Details: Schedule A-4, Section A

Summaries: To be included, by cost center, on Schedule A,
Column D.

3 - Other Operating Revenues

Definition

Other operating revenues are operating revenues

- . which are related to expenses that are reported as "Non-Routine/Non-Allowable Expenses" on Schedule A, or
- . which do not meet the definition of revenue classes #1 and #2.

Details

Details are required for each type of "Non-Routine/Non-Allowable Expense" reported on Schedule A-3 and for any other operating revenues meeting this definition.

Reporting

Details: Schedule A-3.

4 - Restricted Income - Operating

Definition

Restricted Income - operating, is income that has been donor restricted for a specific operating purpose such as patient care services, administrative services, dietary services etc.

Details Required

These revenues are to be reported as offsets against the cost of the cost center in which the majority of expenses are reported. Separate accounts should be maintained for restricted income for each cost center affected.

Reporting

Details: Schedule A-4, Section C

Summaries: To be included, by cost center, on Schedule A, Column D.

NOTE: Restricted Income - capital, is not being reported on schedules for this reporting period, but may be required in the future. Accounts should be maintained consistent with the criteria stated above.

6 - Unrestricted Income

Definition

Unrestricted income for governmental units is defined as appropriations and other general funding from municipalities, counties and other local governments where such income is not derived from billings to these units for care or is otherwise restricted for capital projects or specific services.

The same definition applies to income received from non-governmental sources; Board - restricted funds are considered "unrestricted."

Reporting

Details: Schedule D, Section C

SECTION B

COST STUDY INSTRUCTIONS
& REPORTING

REPORTING INSTRUCTIONS

The Department's reporting requirements are contained in fourteen schedules (Schedules 1 and A through H). Instructions for completing the schedules are contained in this section.

A brief description of each schedule follows:

Schedules

- Schedule 1, General Data Concerning Ownership and Type of Facility
- Schedule A, Routine Expenses - Reports the expenses of routine functions by expense classification centers and expenses applicable to Residential and Long-Term Care.
- Schedule A-1, Lists detail of items to be included in administrators cost and management centers.
- Schedule A-2, Lists detail of items to be included in the other administrative cost center.
- Schedule A-3, Non-Routine/Non-Allowable expenses - Lists detail of Non-Routine/Non-Allowable expenses and revenues.
- Schedule A-4, Details of Eliminations and Recoveries - Lists details of items contained on Schedule A, Column D.
- Schedule B, Patient Days and Routine Revenues - Contains data on beds, occupancy and admissions and discharges, also reports gross revenues from routine services by levels of care.
- Schedule D, Selected Data - Contains data on employee salaries, percent of hours worked to paid, unrestricted income and special amortization.
- Schedule E, Current Property Data - Reports property related expenditures and other data pertaining to capital facilities.
- Schedule E-1, Plant Equity Data (for all facilities) reports fixed assets, accumulated depreciation and debt.

Schedules (Continued)

- Schedule F, Data Concerning Related Parties and Selected Employees - Reports related parties, their interest in the facility and current transactions. Also included is certain data concerning owners, employees and relatives of owners.
- Schedule G, Selected Federal Tax Return Data and Balance Sheet - Contains selected data from tax return filed by facility per page and line numbers indicated on form, and also contains balance sheet items per tax return filed.
- Schedule G-1, Reconciliation - This schedule requires the facility to reconcile revenues and expenses to the financial statements.
- Schedule H, Certification - This is self explanatory.

Completion of Schedules

Introduction

These instructions for completion of schedules are not intended to be complete, but rather to supplement descriptions and footnotes on the schedules and Definitions and Accounts in clarifying areas that may present difficulties.

All Schedules

Facility No. - Enter your facility's five digit Medicaid Provider number.

Period Ending- Fiscal year used for reporting costs should be consistent with that used for income tax purposes.

Reporting Conventions

- Dollars - Report in whole numbers; omit cents.
- Statistics - Report in whole numbers; omit decimals.
- Cost data should be reported on the basis of Generally Accepted Accounting Principles and accrual method of accounting, except that, for governmental institutions operated on a cash method of accounting, data based on such a method of accounting will be acceptable.
- A copy of the facility's latest audit or review by an independent public accountant for the same period as the cost study MUST be submitted.
- For facilities who have been in operation at least 12 months, cost studies must be filed for the latest natural consecutive 12 month (base) period. For facilities with less than 12 months of actual costs, contact the Department of Health for further instructions before completing cost study.
- Expenses accrued during the base period must be paid within six (6) months thereafter, to be considered allowable.
- Data submitted must be suitable for entry into the data base in order to be considered a complete and timely filing.

Schedule Interrelationships

- Refer to the list attached for data sources from within

these Schedules. Your facility's books and records should provide all the underlying data required.

SCHEDULE INTERRELATIONSHIPS

SOURCE

DETAILED ON

<u>CHED</u>	<u>LINE</u>	<u>COL</u>	<u>ITEM</u>	<u>SCHED</u>	<u>LINE</u>	<u>COL</u>
A	2, 3	B	Special Fringe Benefits	A-1	7	B-E
				A-1	11	G-J
				F	6-11	K
A	2, 3	All	Management/Administrator - Related Parties	A-1	9	A-E
				A-1	16	F-J
A	4	All	Other Administrative	A-2	18	A-E
A	36	All	Non-Routine/Non-Allowable Expenses	A-3	21	A-C
A	All	D	Recoveries and Eliminations	A-4	All	1
A	11	C	Maintenance Expense	E	9	A*
A	18	C	Net Rentals and Leases (For Related Parties)	E	9	C
				F	1-5	G
A	19	C	Interest (All) - Related Parties	F	1-5	D
A	21	C	Special Amortization	D	24	K
A	22, 24, 26	A	Total Employee Nursing Hours Paid	D	8	-

*Capitalized maintenance is included with expenditures for replacements on Schedule E, Column A.

SCHEDULE 1

General Administrative Information

Type of Facility - Check all blocks applicable

Type of Ownership - Indicate classification of facility
and building and land ownership

SCHEDULE A

All operating expenses of the facility for the reporting period are to be entered on Schedule A by appropriate cost center. Some definitions as to the types of expenses to be included in each cost center are included herewith. For further definitions of the expenses to be included in each cost center, refer to Section II entitled, "Definitions and Accounts."

COLUMN A - HOURS

Enter paid hours for the employees and contracted nursing personnel, including pay for vacations, holidays, sick leave time and other hours paid but not worked.

Where overtime compensation is at a premium (such as time-and-a-half or double time), report only the actual hours worked.

Data on hours paid by cost center is required for the cost study filing to be considered complete.

COLUMN B - SALARIES AND FRINGE BENEFITS

Enter on line 1, "General Fringe Benefits," the costs of fringe benefits available generally to employees, including FICA, unemployment compensation and other payroll related benefits required by law.

Pay for time not worked (vacations, holidays, etc.) should be reported together with the salaries and wages of the related employees in the appropriate cost centers and not on line 1.

For all other centers, report in Column B the total of

- salaries and wages, including premiums paid for overtime
- the costs of any special fringe benefits not generally available to all employees
- expenses for contracted nursing personnel (on the lines indicated)

With the exception of contracted nursing personnel, fees and other costs of securing the personal services on non-employees should be excluded from Column B and reported in Column C.

COLUMN C - FEES AND OTHER EXPENSES

Report in this Column all expenses other than those reported in Column B. Line 37, Columns B and C should equal totals per financial statements.

COLUMN D - RECOVERIES AND ELIMINATIONS

Report in this Column in the centers in which related expenses are reported:

- (1) Incidental revenues derived from other than routine patient care such as:
 - telephone charges and commissions
 - television rentals
 - meals sold to guests or employees
 - private nursing services
 - rental income from other than routine patient care, including rooms rented to employees
 - purchase discounts not reflected in the costs reported in Column C.
- (2) Restricted funds expended for operating expenses.
- (3) Nonallowable expenses - i.e., those costs which do not reasonably relate to the providing of services defined as "routine" for the state Medicaid program. Examples of nonallowable expenses have been included in the instructions for Schedules A-3 and A-4. Also, the special services considered as "routine" are itemized as separate cost centers under "Patient Care" on Schedule A.

Where the costs of a center are "allowable" but benefit patients who are receiving residential, sheltered or domiciliary care, as well as ICF and SNF patients, these expenses should not be eliminated in Column D. (These "Common" Costs should be included in the net expenses reported in Column E and then apportioned in Columns F and G).

Two reporting alternatives are available with respect to reporting and eliminating nonallowable costs.

- (1) Report these costs in the "Nonallowable" Cost Center (Schedule A, Line 36) and eliminate this total in Column D of that line (Preferable), or
- (2) Report these costs in the appropriate cost centers and eliminate them in Column D of the centers in which the costs are reported.

COLUMN E - NET ROUTINE EXPENSES

Net routine expenses are the total of gross expenses per Column B and C, less recoveries and eliminations reported in Column D.

Column E should consist only of allowable categories of expense. Where such allowable expenses benefit residential, sheltered care or domiciliary patients in addition to ICF or SNF patients, Column E should include all such allowable expenses.

COLUMN F - APPLICABLE TO RESIDENTIAL AND SHELTERED CARE

Enter in Column F the portion of Column E expenses applicable to patients other than those requiring intermediate or skilled care.

Attach your supporting schedule explaining the basis of allocation together with the calculations supporting entries in Column F.

Column F and G may be left blank where homes serve only intermediate and skilled care patients.

COLUMN G - APPLICABLE TO LONG TERM CARE

Enter in Column G, the portion of the net expenses (per Column E) applicable to patients requiring intermediate and skilled care.

The total of Columns F and G must equal Column E.

Line 37 (total expenses) is the sum total of lines 1, 10, 16, 20, 21, 35 and 36.

NOTE: Check all boxes on Schedule A, if applicable. Footnotes at the bottom of Schedule A explain the criteria for each of the appropriate boxes.

A-1 DETAILS OF "MANAGEMENT AND ADMINISTRATORS COSTS"

Schedule A-1, DETAILS OF "MANAGEMENT" provides the supporting details of amounts entered on line 2 of Schedule A.

Report on Schedule A-1, part A, any compensation, fees and expenses relative to related parties who work at the facility less than twenty hours per week. (See instructions for Schedule F for definition of related party.)

All management fees, home office expense allocations and similar charges from related organizations for expenses of an administrative or general services nature should be reported here, irrespective of the cost centers or functions which benefit from these services. (The state reserves the right to review for reasonableness, home office costs and the basis for charging facilities for their services.) For Governmental institutions only, in the instances where the county provides home office type services for the nursing home report home office expense allocations by cost centers.

Allowable directors fees are limited to \$1,000 for a facility.

Schedule A-1, DETAILS OF "ADMINISTRATORS COST" provides the supporting details of amounts entered on line 3 of Schedule A.

Report the entire salary, special fringe benefits, and other expenses of the administrator on Schedule A-1, Part B, irrespective of specific duties performed for any other functions.

A-2 DETAILS OF "OTHER ADMINISTRATIVE EXPENSES"

Schedule A-2 provides the supporting details of amounts entered on line 4 of Schedule A.

Professional Fees

Legal, accounting and other professional fees for administrative matters are allowable so long as they relate to the effective operations of the facility - e.g., fees for audits, the preparation of tax returns, calculations relative to fringe benefit plans, defenses against negligence claims relating to the providing of patient care, etc.

Examples of nonallowable fees include those involving

- the collection of private patient accounts
- organization expenses
- law suits by the home not related to the recovery or avoidance of costs reported as allowable
- future financial or expansion construction plans, except if required by State regulations
- capital debt or asset financing or refinancing
- defenses against law suits for matters other than those related to effective operations of the facility
- suits against state and federal agencies
- retainer fees.

Automobiles

Include on Schedule A-2 depreciation, leasing, insurance maintenance and other expenses relating to all motor vehicles owned or leased by the facility, other than those reported on Schedule A-1.

A-3 DETAILS OF "NON-ROUTINE/NON-ALLOWABLE EXPENSES"

Schedule A-3, Columns A-C, provides the supporting details of amounts entered on line 36 of Schedule A.

Preprinted on this form are examples of non-allowable expenses, but this list is not intended to be all inclusive. To be allowable, expenses must reasonably relate to the providing of those patient care services defined as "routine" by the State Medicaid program. Currently, costs such as prescription drugs, laboratory and x-ray, occupational therapy, and all other non-allowable expenses should be entered "gross" in Columns B and C and carried forward to Schedule A, Line 36. In no case will expenses of a personal nature be considered allowable.

Purchases from related vendors - the cost to related vendors or the current market value, whichever is lower, will be recognized. Any expense for goods and services in excess of what the home could procure the same service for, should be excluded from costs.

Non-Routine/Non-Allowable Revenues - on Schedule A-3, Column D enter revenues derived from these expenses on the appropriate lines. (These revenues are not to be carried forward to Schedule A).

A-4 DETAILS OF RECOVERIES AND ELIMINATIONS, SECTION A AND B

Schedule A-4 provides the supporting details of amounts entered on Schedule A, Column D.

The "center" Column, (Column 2), is provided to identify the cost center where the costs are being recovered or eliminated on Schedule A, Column D. Several line items have been preprinted to indicate what cost centers the revenues may have affected. Enter the center syntax in Column 2 for all sections (A and B), as applicable.

Incidental Revenues, Section A

Preprinted in this section are several items of routine revenues that are considered reductions to routine expenses. Income related to routine patient care should not be offset. Enter the income reported in Column 1, Schedule A-4, on Schedule A, Column D, only to the extent of the expense being offset. The excess of income over expense should be reflected on Schedule G-1. (DO NOT report more income in Column D than there are expenses in Column B and C).

Restricted Funds Expensed for Operating Costs, Section B

Enter the donor restricted income and funds that were expensed for operating costs in Column 1 and on Schedule A, Column D for the appropriate cost centers. For income from governmental units, see instructions for Schedule D, Line 16.

SCHEDULE B

Patient Days and Routine Revenues

Patient Days, Section A

Report total facility patient days, for levels of care and payors on Lines 1 - 4.

Total Skilled and ICF Admissions or Discharges and Deaths

On Line 6, enter either the total Skilled, and Intermediate Care Admissions or the total discharges and deaths.

NOTE: For Line 6 only, a patient is considered discharged who leaves the facility and does not anticipate returning. Discharges and admissions should not be reported when

- a patient's level of care changes
- a patient leaves for a short stay outside of the facility (to family, hospital, etc.) and the facility reserves the patient's bed.

Maximum Bed Days, Section B

On Line 7, enter the number of beds licensed by the New Jersey State Department of Health (EXCLUDING QUIET ROOM), the number of days in the base period and the maximum bed days. If there was a change in bed capacity during the reporting period, complete as follows:

	<u>BEDS</u>		<u>DAYS</u>	<u>MAXIMUM BED DAYS</u>
July 1 to September 30	200	x	92	18,400
October 1 to June 30	<u>250</u>	x	<u>273</u>	<u>68,250</u>
	XXX		365	86,650

On Line 8, enter the number of quiet beds, the sum of Lines 7 and 8 should equal the total long term care licensed beds, per the LTCF's directory (P-13.0).

On Line 9, enter the number of sheltered, residential and/or domiciliary beds, if applicable.

Gross Revenues from Routine Services, Section C

Report Gross Revenues from Routine Services, for all patients, by level of care as defined by the Department of Health. These levels of care are as follows:

- Skilled
- Intermediate A
- Intermediate B
- Other

Payors, Lines 1 - 4

Report Gross Revenues from Routine Services, likewise for all patients by payor. These payors are as follows:

- Medicaid (Title XIX)
- Medicare (Title XVIII)
- Private
- Other

"Other" patients includes those patients the majority of whose costs are borne by third party payors (excluding family) other than the Medicare and Medicaid programs.

NOTE: Schedule B, Column D, "OTHER" refers only to residential, sheltered and domiciliary patients.

SCHEDULE D

Selected Data

Selected Employee Salary Data, (A)

Select the last pay period in your fiscal year which did not include a holiday and enter the straight time and overtime hours and salary for the preprinted employee classification on Lines 1 - 6.

% of Employee Nursing Hours Worked to Paid, (B)

The purpose of this data is to report for an "average" nursing employee, the relationship between hours worked and hours paid, as illustrated in the following example of Schedule D, Lines 8 through 13.

8.	Salary hours paid - Total	(+)	2,080
9.	- Vacation	(-)	80
10.	- Holidays	(-)	72
11.	- Sick and Other	(-)	40
12.	- Worked	(=)	1,888
13.	% of hours worked to paid (1,888) divided by (2,080).		91%

Exclude contracted nurses from this section. Where the home's payroll records contain the above data, please submit total hours for all nursing employees (R.N.'s, L.P.N.'s and Aides) on lines 8 through 13.

In the absence of records of time paid and not worked, facilities should employ best estimates of this data for a

"typical" nurse. For example, in the illustration given above, an average or typical nurse was paid for a total of 24 days not worked ($80 + 72 + 40$ divided by 8).

Meal Data (Lines 14 and 15)

For this purpose, a "meal" is defined as the equivalent of a full lunch or dinner. In the absence of detailed records, please provide management estimates. On line 14, enter the number of meals served to employees per year; if none, enter N/A. On line 15, enter the average employee meal price; if no meals were served, enter N/A, if there was no charge for meals served, enter -0-.

Unrestricted Income, (C) Lines 16 - 20

The purpose of this schedule is to determine the average unrestricted income received for the three (3) most recent years of operation.

Line 16 - Unrestricted income from "Local Government Units" includes appropriations and other general funding from municipalities, counties and other local government where such income is not derived from billings to these units for care or is otherwise restricted for capital projects or specific services.

For example, should a government unit pay \$X per day for the care of specific patients, then that income should be reported on Schedule B line 4 as "Routine Revenues".

- On the other hand, should the home receive an appropriation of \$Y to defray general operating costs, this amount should be entered on line 16 of Schedule D as "Unrestricted Income - Local Government Units." This rule applies even though there may be certain constraints placed by the governmental unit on how the funds are to be spent (e.g., budgetary line items).
- Funding by governmental units restricted for capital purposes should be excluded from Schedule D.
- Funding by governmental units that is restricted for specific services or functions should be reported on Schedule A-4 and shown on Schedule A as a recovery of expenses.

Line 17 - The above rules apply to income received from non-governmental sources. Board - restricted funds are considered "unrestricted" and should be reported on Line 17.

List all unrestricted income on Lines 16 and 17 as applicable. On Line 18, deduct the fund raising expenses applicable to Lines 16 and 17. To determine the average income, (Line 20, Column H) divide Line 19, Column H by the number of years (1 to 3) for which these data are reported.

Special Amortization Details and Organization Cost, (D)
Lines 21-24)

Special Amortization Details, Lines 21 and 22 - report where special consideration has been given by the Division of Medical Assistance, Health Services, for the amortization or

accelerated depreciation of expenditures for purposes such as meeting life safety code requirements.

Amortization of start-up costs should be in accordance with the Division of Medical Assistance and Health Services. If such data have not been filed, submit a detailed account of start up costs with this report. Report the amortization of leasehold improvements on Schedule line 8 and not on lines 21 and 22.

Identify these items of amortization (i.e., sprinkler system) on lines 21 and 22 and report the balance sheet amounts at the ending and beginning of the reporting period - Columns I and J. Reporting period cost should be the difference between Columns I and J and should be entered in Column K, which should agree with Schedule A, Line 21, Column E.

Organization Cost, Line 23 - report the balance sheet amounts at the ending and beginning of the reporting period under Columns I and J. Organizations Costs are nonallowable.

SCHEDULE E

Expenditures for Acquisition or Use of Property (Lines 1 - 14)

Column A - Capitalized Maintenance and Replacements

Enter in this column all capitalized base period expenditures for

- the maintenance of land, physical plant and equipment
- the replacement of equipment, net of trade-in offsets.

This column should be used only for capitalized expenditures which were made to maintain the physical facilities and patient care services at existing levels.

Column B - Additions

Enter in this column all capitalized expenditures which significantly expanded, altered or enhanced the value or useful life of the facility or its capacity to provide patient care services.

Examples of additions include:

- improvements and alterations mandated by life safety code requirements (which should also be reported on lines 10 - 14, and entered under Special Amortization on lines 21 - 22 of Schedule D).
- installation of additional air condition capacity.
- the acquisition of additional fixed and moveable equipment required to support additional patient care capacity.

- installation of storm windows or other forms of insulation, except where existing windows, etc. are not being replaced.
- increases in the number of motor vehicles owned.
- expansions of existing driveways, parking lots and other land improvements.

Where homes report significant additions on lines 1 through 4, owners should consider requesting that their facilities be reappraised.

Column C - Net Rentals and Leases

Report lease expenses for buildings net of amounts paid by lessor for property taxes, insurance, maintenance and other operating expenses. (Any such identified amounts paid by lessors should be reported as though the expenditures were made by the operator of the facility).

Include on lines 10 - 14 any identifiable leasing expenses attributable to expenditures by lessors to comply with mandated requirements.

Where several classes of assets (e.g., land, building, fixed equipment, etc.) are leased from the same lessor and the lease does not differentiate the amounts paid for each class of asset, impute the cost related to reimbursable moveable equipment and report separately on line 5. Attach support of calculations.

Line 6 Non-Reimbursable Moveable Equipment

This line is to be used for expenditures relating to moveable equipment which is not reasonably necessary to provide routine patient care services as defined by the Medicaid program.

Statistical Data Related to Acquisition or Use of Property

This part of Schedule E reports statistical data directly related to the acquisition of land and buildings reported on Part 1 of Schedule E and other licensed bed changes. Report on Line 22 changes to available licensed beds for all reasons other than a current period building expenditure. Line 19, Column E should be completed, irregardless of any changes this period, and detailed on Lines 15 through 17 if the home serves residential, sheltered or domiciliary patients.

Assessed Values

You should complete this part only if the home has been assessed during the reporting period.

Land Used for Other Purposes

This line should be completed for as long as the home owns land that is being used for purposes other than the operation of the home.

SCHEDULE E-1

Plant Equity Data (For all Facilities)

The purpose of this schedule is to determine average net plant equity during the reporting period. Net plant equity is defined as the net book values of fixed assets less all outstanding debt (including short term loans), applicable to long term care.

Amounts are to be entered in each column as follows:

(A) Opening Amounts

Enter balances as of the beginning of the reporting period. (After the first year of reporting on this form, Column A amounts should be the same as those reported on Column E for the previous year).

Opening balances for accumulated depreciation should be reported based upon straight-line depreciation since the year of acquisition of fixed assets using the same useful lives and salvage values that have been used for Medicaid purposes.

A ten year life may be used for building and fixed equipment expenditures made to meet life safety code requirements.

The term "Motor Vehicles" (A-1) refers to those motor vehicles whose depreciation expense is reported on Schedule A-1 because they are used primarily by administrators, directors, owners, etc. Report other motor vehicles as moveable equipment.

Include land improvements and leasehold improvements under other fixed assets.

Lines 12 through 15 provide for data on different debts. Enter a brief description of each debt in the space provided (e.g., "25 year first mtge.").

(B) Capital Expenditures

The total amounts on lines 1, 2, 3 and 5 should agree with the total of expenditures reported in Columns A and B of Schedule E.

(C) Sales and Retirements

Enter the gross asset values and the accumulated depreciation of all fixed assets sold or retired during the fiscal year.

(D) Depreciation and Amortization Expense - This year

Depreciation is to be calculated on a straight line basis using Medicaid useful lives and salvage values. For expenditures made to meet life safety code requirements, a ten year life may be used. Amortization expense credited directly to related asset accounts should be reported on Line 5. The depreciation expense reported on Line 5, 7, 8 and 10 should agree with amounts reported on Schedule A, Column E, Lines 17 and 21, except in the case of related lease agreement where lease expense is reported on Schedule A.

(E) Ending Amounts

Ending amounts are those at the close of the fiscal year. For asset and depreciation data, they should be the net amount of columns A, B, C and D.

(F) Average

For the unshaded blocks, enter one-half of the total of Column A and E.

(G) Assets Depreciated This Year

Enter in this column the gross amount (depreciation basis) of fixed assets on which depreciation was taken in the reporting period. Assets which were fully depreciated at the beginning of the reporting period should be excluded from this column.

(H) Indicated Average Life

Divide the assets reported in Column G by the respective depreciation reported in Column D for each class of fixed asset and enter the result in Column H. The "years" entered in Column H should be approximately the average useful life of each class of asset. Where such is not the case, please attach an explanation.

(I) Interest Expense

Enter the interest expense during the fiscal year relating to each type of loan. The total on Line 15 should agree with the amount reported on Schedule A, Line 19, Column E, except in the case of a related lease agreement where lease expense is reported on Schedule A.

(J) Indicated Rate

Divide the interest expense in Column I by the average debt in Column F and express as a percent in Column J.

(K) Actual Rate

Enter the actual rates per the mortgage or loan agreements. If the rate in this column differs significantly from the indicated rate in Column J, attach an explanation. A complete depreciation

schedule must be attached if E-1 represents a summary of facility transactions.

SCHEDULE F

Data Concerning Related Parties and Selected Employees

Data Concerning Related Parties

For each related party meeting the definition below, list their related party type, name, interest in the facility and reporting period transactions.

Definition of a Related Party

1. A corporation, partnership, trust or other business entity
 - (a) which has an equity interest of 10% or more of the facility
 - (b) which has an equity interest of 10% or more in any business entity which is related by definition (a) above or which has an equity interest of 10% or more in any business entity related by this definition (b), or
 - (c) in which any party who is a related party by any other definition (above or below) has an equity interest of 10% or more and which has a significant business relationship with the home.
2. An individual
 - (d) who has a beneficial interest of 10% or more in the net worth of the home, or

- (e) who has a beneficial interest of 10% or more in an entity related by definition (b) or (c) above, or
- (f) who is a relative of an individual who is related by definition (d) or (e) above.
- (g) beneficial interest is cumulative, if it relates to spouse, parent or children.

Completion of Data Concerning Related Parties

- Related Party Type - Enter per definition above
- Interest in Facility
 - .. Loans, Ending Balance - Report, for each debt agreement, all liabilities to related parties, including individuals and partnerships.
 - .. Loans, Annual Interest Rate - Report the effective annual rate of interest per debt agreement. For interest rates that were changed during the reporting period, use an average rate.
 - .. Equity, Percent of Total - Report the percent of each related party's equity interest in the facility based on an average of each related party's equity interest to the total equity interest in the facility during the reporting period.
- Reporting Period Transactions - Briefly describe the nature of each transaction and report the associated costs that have been included on Schedule A.

Data Concerning Selected Employees

Enter the data requested in the column headings for the categories of employees shown on Lines 6 through 8.

Lines 9 through 11 are provided in order to report the same data for any other employees who meet either of the following criteria:

1. Related to home per above "Definition of a Related Party."

2. Compensation exceeds \$10 per hour worked.

• Live on Premises? - Enter "Yes" or "No"

• % of Time Worked - Report the estimated percent of time devoted to facility business. Consider 100% to be the average straight time hours by all employees.

• Annual Compensation - Enter annual salary including any deferred compensation.

• Special Fringe Benefits - Report pension costs and life insurance premiums or other fringe benefits paid on behalf of individuals that are not available to most other employees.

• Auto Expense and Other - Report all automobile expenses (gasoline, depreciation, maintenance and auto insurance) of autos owned or leased by the home and used by the employees outside of normal working hours. Also include the cost or fair market value of any other special benefits accorded these employees.

• Related party - Enter "Yes" or "No."

SCHEDULE G

Selected Federal Tax Return Data and Balance Sheet

Complete this schedule by entering the data required from the Federal Income Tax Return per the page and line numbers that have been preprinted on the schedule.

If the facility is part of a larger organization which files a consolidated tax return, insert in Schedule G the data from that home as it was consolidated in preparing the tax return.

NOTE: A copy of your tax return should be submitted.

SCHEDULE G-1

RECONCILIATION

The purpose of this schedule is to provide the nursing facility a tool for determining that all costs were reported entered on the cost study, and that the total revenues and expenses reconciled to the financial statements. All differences should be explained on the lines provided.

This schedule must be completed or the cost study will not be accepted and will be returned to the nursing facility.

Financial statements to which this Schedule is reconciled must be submitted in order to be considered complete.

SCHEDULE H
Certification

Name - Print or type the name of the owner, officer or partner who has signed this certification. If this individual also completed all the schedules then do not complete the bottom section of the schedule concerning the preparer.

Facility - Enter the full name of the nursing facility.

Address - Enter the full address of the facility. Be sure to include zip code.

Name of Preparer - Print or type the name of the individual who prepared the schedules if other than the individual entered on the top half of this schedule. (i.e., if the owner prepared the schedules and signed the certification, he need fill out only the top of the schedule. However, if the owner signed the certification but did not prepare these schedules, then the individual preparing the schedules must also sign this schedule.)

SECTION B-1

ADJUSTMENTS TO
BASE PERIOD DATA

1/1/80

SCHEDULE C

Legal and Management Changes

• This form is to be completed for any additional costs homes expect to incur over and above base period expenditures to:

1. Comply with legally mandated requirements (legal changes).
2. Upgrade the quality of care above the level reflected in base period costs (management changes).

Legal - Includes expenditures that require a Certificate of Need or which are mandated by Licensing and Inspection, Life Safety Code Requirements, Federal and State Regulation, Local Ordinances, and other legally constituted authorities.

Management - Includes all changes made at management's initiative or descretion. Refer to Guidelines C-30.

• This form is not to be used for:

1. Increases in the salaries and fringe benefit level of employees.
2. Price increases in goods and services purchased, or increases in local tax rates.
3. Changes related to changes in occupancy or volume levels.

NOTE: Where a legal or management change is approved and incorporated in rate, and a home does not make the approved expenditures in the period during which these rates are applied, the State will retroactively recover any amounts not spent.

Changes requiring a Certificate of Need are based on size of facility as follows:

<u>Major Moveable Equipment Cost*</u>	<u>Modernization or Fixed Equipment Cost</u>	<u>Number of Nursing Home Beds</u>
\$10,000	\$ 40,000	1 - 99
\$10,000	\$ 75,000	100 - 299
\$10,000	\$100,000	300 - or more

*Purchase of similar units cannot exceed \$25,000 in a 12 month period.

Changes in excess of the above amounts must be accompanied by an approved Certificate of Need.

Type of Change, (A)

Check the appropriate box applicable.

Description of Change, (B)

Describe the change (s) in detail, complete one (1) form for each major change and combine related minor changes.

Date of Change, (C)

Indicate the date the change was instituted (i.e., date construction was completed, date staffing increase is effective).

Certificate of Need Number, (D)

Enter the six (6) digit number assigned to your Certificate of Need, where applicable.

Cost Centers Affected, (E)

Enter appropriate cost centers affected by Legal and Management changes (per Schedule A) i.e., management, dietary, house-keeping, etc. (See "Capital Expenditures and Maintenance" for changes involving capital or maintenance projects).

Documentation

Include support for change when submitting the Schedule C request.

Cost Contained in Base Period, (F)

Enter the costs which have been incurred in the base period and reported on Schedule A. Enter zero (0) in this column if change was not effected in the base period.

Annual Costs, (G)

Report what the costs will be for a full year at price levels expected in the prospective rate period.

If a portion of cost is in the base period (i.e., three (3) months in base period and nine (9) months outside of period), enter what the cost will be a full year in Column (G).

Capital Expenditures and Maintenance

Projects involving capital expenditures or major maintenance will be treated on an individual basis. Where such expenditures will result in a change in rates, the rate change will not be made until the project has been completed.

•Where a home believes that the expenditure should qualify for a "Special Amortization" provision in rates, enter SPAM as the cost center affected and enter the total cost in Column G. The Department will review each request as to its eligibility for special amortization and the amortization period.

•Where a home believes that the expenditures will enhance the appraised value of land or building (including fixed equipment), enter "Land" or "Building" under the Cost Center Affected and enter the total planned expenditure in Column G. The Department will determine the effect on rates (after reappraisal of land and/or building if necessary) upon completion of the project.

•Where extraordinary expenditures are planned for equipment replacements or major maintenance purposes and have no effect on the appraised value of building or land, enter "Maintenance" or "Replacements" under Cost Center Affected and enter the estimated amount of the expenditure in Column G. (Only in extraordinary circumstances will rate adjustments be made for such expenditures in the year in which the expenditure is made).

Property Operating Costs

Property operating costs include fringed costs for maintenance, property taxes, utilities, and property insurance, which are not affected by actual occupancy. Lines Q and R calculate target patient days and convert total property operating costs into a per diem amount on this basis.

General Service and Special Patient Care Costs

Line S displays total Fringed LTC Costs for the General Service Cost Centers indicated. These are the centers reported on Lines 2 through 9 of Schedule A under the caption "General Services." The excess Administration and Legal Fees calculated according to Section D3 are eliminated.

Line T displays the total Fringed LTC Costs for the Special Patient Care Cost Centers indicated. These are the centers reported on Lines 28 through 34 of Schedule A.

Sub-Total (Line R)

Line X provides the total operating costs per diem for all patients.

Per Diem Summary

Per diem nursing specifies the per diem rate for nursing for each level of care. Operating costs from Line X are added to each care level. The combined total is increased for the effects of inflation. The percentage is based upon inflation as measured from the midpoint of the reporting period to the midpoint of the payment period (i.e., the period during which these rates are to apply). Fixed property costs are added to the inflated per diem, resulting in the final historical rate which is to be compared to the final CFA-Screened Rate.

STATE OF NEW JERSEY
DEPARTMENT OF HEALTH
DEPARTMENT OF HUMAN SERVICES
LONG TERM CARE FACILITIES
RATE REVIEW GUIDELINES

These documents have been prepared by the Department of Human Services in conjunction with the Department of Health.

LONG TERM CARE FACILITIES

RATE REVIEW GUIDELINES

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LONG TERM CARE FACILITIES

RATE REVIEW GUIDELINES

INTRODUCTION

These proposed regulations describe the methodology ("Guidelines") to be used by the State of New Jersey to establish prospective per diem rates for the providing of routine care to patients under the State's Medicaid program. These guidelines have been developed jointly by the State Department of Human Services and the State Department of Health ("the Departments").

The Departments believe that the strict application of these guidelines will generally produce equitable rates for the payment to Long Term Care Facilities (LTCF'S) of the reasonable costs of providing routine patient care services. The Departments recognize however, that no set of guidelines can be developed which might not result in some inequities if applied rigidly and indiscriminately in all situations. Inequities could be in the form of rates that are unduly low or rates that are unduly high.

Accordingly, in the case where a LTCF believes that, owing to an unusual situation, the application of these guidelines results in an inequity, the Departments are prepared to review the particular circumstances with the LTCF. Appeals on the grounds of inequity should be limited to circumstances peculiar to the LTCF affected. They should not address the broader aspects of the guidelines themselves.

On the other hand, these guidelines are not purported to be an exhaustive list of unreasonable costs. Accordingly, notwithstanding any inferences one may derive from these guidelines, the Departments reserve the right to question and exclude from rates any unreasonable costs, consistent with the provision of NJSA 30:4D-1 et. seq.

All rates established pursuant to these guidelines will be subject to on-site audit verification, of costs and statistics reported by LTCF's.

These revised guidelines in the long term care facility reimbursement formula have been developed to meet the following overall goals:

- . . . To comply with federal requirements for a "reasonable cost related" formula,
- . . . To provide sufficient reimbursement to assure adequate levels of patient care,
- . . . To provide sufficient incentive to attract long term care facility investment, thereby reducing the reported Medicaid bed shortage, and
- . . . To end opportunities for excessive property cost reimbursement.

LONG TERM CARE FACILITIES

RATE REVIEW GUIDELINES

A. TIMING

Commencing with Fiscal Years ending with November 30, 1977, LTCF's are to furnish required cost studies and required documentation to the Department of Health, Health Economics Services within 90 days of the close of each fiscal year. For rate review purposes, the period for which these actual data are reported will constitute the "base period" for establishing prospective per diem reimbursement rates to be in effect for one full year commencing six months after the end of the base period, or 90 days after the receipt of the report in a form suitable for processing; whichever is later. These rates will not be subject to routine retroactive adjustments except for matters as specified in the Guidelines.

B. RATE COMPONENTS

The prospective rates will be established at the lower of (1) actual unscreened historical costs per day plus a return on net equity (except for voluntary and governmental facilities) after adjustments to the Management, Administrator, Assistant Administrator, and Legal Fees Cost Areas or (2) "screened" CFA rates per day calculated by applying standards and reasonableness criteria ("screens") to the following five rate components as identified on reporting Schedule A.

1. Raw Food Costs
2. General Service Expenses
3. Property-Operating Costs

4. Patient Care Expenses

5. Property - Capital Costs (including return on investment)

A provision for inflation will be added to reasonable base period costs in calculating the prospective rates as described in Section R. Finally, a working capital provision will be added as described in Section S.

C. COMPENSATION EQUALIZATION & EQUALIZED COSTS

In order to equitably develop and apply screens in those functions with employee compensation components, the following computation will be made:

1. General fringe benefits will be allocated to functions as a percentage of salaries reported to develop total compensation. General fringe benefits will include the raw food value of free and subsidized meals to employees.
2. The average hourly compensation (salary and fringe benefits) will be calculated for each LTCF's nursing and general services personnel, exclusive of administrative employees.
3. LTCF's will be grouped geographically using as guidelines:

- a. Location factors (metropolitan, suburban, rural, etc.)
 - b. Average actual compensation levels developed from paragraph 2 above, adjusted for timing differences among LTCF'S base periods.
4. Using the data developed from paragraph 2, regional compensation indices will be developed for each region identified in paragraph 3.
 5. Actual compensation costs (including fringes) will be adjusted ("equalized") by these indices to neutralize the effect of geographic compensation differentials. Contracted nursing services also will be equalized. Salary costs reported in the Management, Administrator, and Patient Care Cost Centers other than nursing will not be equalized.
 6. The term "equalized costs" means the net amount of equalized compensation costs plus other expenses, less expense recoveries and nonallowable costs, adjusted for timing differences among LTCF'S fiscal years.
 7. For LTCF'S which provide residential, sheltered or domiciliary care, equalized ICF and SNF costs will be determined by apportioning equalized costs in the same ratio as the apportionment of unequalized net expenses.
 8. The equalized net routine expenses will be apportioned to residential/sheltered care and long term care in the same ratio as unequalized net routine expenses are apportioned, except in the case of land and building related items (See Section J, paragraph 9) and (Section F, paragraphs 4 and 5).

D. RAW FOOD COSTS

Raw food costs per patient day for voluntary and proprietary LTCF'S which provide their own food service and which had over 20% Medicaid patient days in the base period will be determined. LTCF'S which contract for their dietary operations will be excluded. These per diem costs will be ranked in descending order on a statewide basis. The reasonableness limit will be set at 120% of the median cost per day.

For LTCF's below this limit, prospective rates will be based upon actual costs. Where homes report unit costs 15% or more below the median, the Department of Health, Health Facilities Inspection, will be asked to inspect the food operations for compliance with state standards.

For LTCF's above that limit, actual raw food costs will be added to other general service expenses and subjected to a screen of the combined total as described in Section E, paragraph 4.

E. GENERAL SERVICE EXPENSES

1. For purposes - of screening reported base period costs, the general services category will be segregated into the following cost components:

1. Food
2. Administrator
3. Assistant Administrator
4. Other general services/legal fees

Reasonableness limits will be developed for each of these components of cost. Reimbursement rates will include the lower of actual costs or reasonable limits developed for each component. No trade-offs among cost components will be allowed with the exception of raw food (See Section D.).

2. The bases for screen development, and reported costs subject to applicable screens, are as follows:
 - A. Food - as indicated in Section D, Raw Food Costs.
 - B. Administrator - reasonable compensation of unrelated administrators as determined by the regression analysis formula utilized by the Division of Health Economics Services.

The Administrator screen will be applied to the aggregate reported costs of management, administrator, and assistant administrator. Compensation and special fringe benefits of all owners, officers, related parties, and other employees acting in an administrative capacity must be reported as Management unless such parties specifically carry out the function of Administrator or Assistant Administrator.

Non-working officer, owner, or related party compensation and special fringe benefits are non-allowable.

C. Assistant Administrator - Limited to 125% of median unrelated assistant administrator compensation.

This cost category will apply only to facilities which are determined to require an Assistant Administrator.

D. Other general services/legal fees - This category will consist of the following cost elements:

- . Other Administrative
- . Dietary
- . Laundry and linen
- . Housekeeping
- . Other general services

Reasonableness limits for this category will be established at a statistically reliable percentage of median costs as reported by proprietary and voluntary facilities which had over 20% Medicaid patient days.

A level of reasonableness will also be established for legal fees, consistent with the method employed for the other general services cost category.

Reasonableness tests will exclude from rate calculations the greater of excess other general services or legal fee costs.

The following examples illustrate this procedure assuming reasonableness limits are established at \$100,000, and \$5,000 for other general services and legal fees respectively:

	<u>Reported costs</u>	<u>Excess</u>
<u>Case #1</u>		
<u>Other general services</u>	<u>\$110,000</u>	<u>\$10,000</u>
<u>Legal fees</u>	<u>\$ 7,000</u>	
<u>Case #2</u>		
<u>Other general services</u>	<u>\$ 98,000</u>	<u>\$ 2,000</u>
<u>Legal fees</u>	<u>\$ 7,000</u>	
<u>Case #3</u>		
<u>Other general services</u>	<u>\$ 99,000</u>	<u>- 0 -</u>
<u>Legal fees</u>	<u>\$ 4,500</u>	

Historical, unscreened, rates (after management, Administrator, Assistant Administrator adjustments) would reflect eliminations in the Legal fee area of \$2,000, \$2000, and zero in the above example.

F. PROPERTY - OPERATING EXPENSES

Property operating expenses include property taxes and utilities.

1. Property taxes will be considered reasonable so long as they are based upon reasonable plant square feet, costs per square foot, and reasonable land area and value.

For this purpose, reasonable plant square feet (and related property taxes) will be determined as follows:

- . The ratio of plant square feet to licensed beds will be determined for all proprietary and voluntary LTCF'S.
 - which substantially comply within 15% of 1973 federal and state standards for space requirements, and
 - which had at least 20% Medicaid patient days in the base period.
2. This ratio will establish the "normal" plant square feet for a LTCF with a given number of licensed beds.
 3. The reasonableness limit for each LTCF'S plant square feet will be established at 110% of the norm for its licensed beds. (See Section J, paragraph 9 for LTCF'S with residential or sheltered care patients.)

4. For LTCF'S whose plant square feet exceed this limit, the property taxes related to the excess will be excluded from the rate base. For this purpose, it will be assumed that assessed values for buildings vary directly in relation to their areas. The latitude set forth in paragraph 3 above is intended to provide for inequities that could result from this assumption. The Department will review on an individual basis, any additional inequities which owners believe are brought about by unusual circumstances.
5. For LTCF'S whose Department of Transportation (D.O.T.) appraised value per plant square foot is greater than 110% of the median construction costs at 1977 price levels, the property taxes attributable to the excess will be excluded from the rate base unless the owners can demonstrate unusual circumstances. For screening new LTCF'S, this figure will be revised each year for inflation and for effects of standards changes upon construction cost. (See Section J, paragraphs 4 and 9 for the methodology for calculating this limit at 1977 price levels).
6. Reasonable land area (and related taxes) is established as follows:
 - . for urban LTCF'S - 2 acres
 - . for nonurban LTCF'S - 5 acres
 - . for this purpose, a city, town, etc. is considered "Urban" if its population exceeds 25,000 and its average population density exceeds 7,000 per square mile. All other areas are considered "Nonurban".

7. Property taxes ascribable to unreasonable land area will be excluded from the prospective rate base, based upon the assumption that assessed values vary directly with area.
8. After making any adjustments per paragraph 7 above, taxes based upon land appraisals in excess of 140% of the median appraisal value of five (5) acres, rural and two (2) acres, urban of all LTCF'S in the country, will also be considered unreasonable. In the case of counties with fewer than 5 LTCF'S neighboring counties may be combined in determining the median value to be used.
9. The Department will review on an individual basis any inequities which owners believe are brought about by unusual circumstances.

As noted in the instructions for the submission of cost studies, where a lessor is paying the property taxes, the actual property taxes paid by the lessor are to be reported by the LTCF operator as a property tax expense and deducted from the amount reported as rent. The property tax component of such leases will be subject to the above screens.

Utility costs will be screened for reasonableness as follows:

10. Base period utility costs per bed will be deemed apparently unreasonable to the extent that they exceed 150% of the

statewide median cost per bed. Where apparently unreasonable costs are identified by this criterion, the Departments will discuss same with LTCF'S as to their reasonableness.

G. SPECIAL AMORTIZATION

The Departments will consider on an individual basis, the amortization of start-up costs and special expenditures in rates. Each case will be reviewed on its particular merits and, accordingly, no guidelines are specified herein. As a rule, however, provisions for special amortization would relate to expenditures of a capital nature that are mandated by changes in laws and regulations. The amortization period would generally range from 36 to 60 months, depending upon the nature and magnitude of expenses.

In approving the amortization of special expenditures, the Departments will also consider the extent to which a LTCF'S rates are based on capital and cost levels of fully complying LTCF'S.

H. ROUTINE PATIENT CARE EXPENSES

For reporting purposes (on Schedule A) and for the application of the following Guidelines, "Routine Patient Care Expenses" are defined as expenses relating to those services defined as includable in the per diem rates for routine care under the Medicaid program.

Reasonableness limits for nursing services (RN's, LPN's and other) will be established as follows:

1. The minimum nursing requirements in terms of hours worked will be calculated for each LTCF based upon the patient mix and standards in effect during the base period.
2. The percentage of hours paid for vacations, holidays, illness, etc. (hours paid but not worked) to hours worked, will be ranked in descending order for all proprietary and voluntary LTCF'S in the State. The percentage for the median LTCF will be selected as the statewide norm for the percentage of hours paid but not worked.
3. The hours developed in paragraph 1 will be incremented by this percentage.
4. The average equalized hourly compensation rate of each class of nurse by salary region (See Section B) for proprietary and voluntary LTCF'S will be calculated.

The average equalized compensation rate for the median LTCF will be selected as the norm for the State.

5. This compensation rate will be multiplied by the paid hours developed in paragraph 3 above for each class of nurse and aggregated for all three classes. This total will be adjusted for timing differences to each LTCF's base period.
6. The reasonableness limit for total nursing care will be established at 125% of this total, in order to allow for variations in staffing patterns, mix of nursing personnel, etc. This 10% latitude will be reduced to the extent that compensation rates of individuals in a LTCF exceed 125% of the compensation rates of comparable positions in other LTCF's.

Reasonableness limits for medical supplies and patient activities will be established at a percentage over the median per diem cost of all proprietary and voluntary LTCF's which had over 20% Medicaid days in the base period.

Reasonableness limits for patient care services other than nursing, medical supplies and patient activities will be established at a percentage over the median per diem cost of all proprietary and voluntary LTCF's which had over 20% Medicaid days in the base period.

Where actual base period costs for routine patient care are below the limits established, the actual costs will be included in the rate base. The Department of Health, Health Facilities Inspection, will be notified of all cases where a LTCF's patient care costs per day are less than 75% of the limits in paragraph 6 and of all cases where nursing hours worked appear to be below State standards.

I. PROPERTY - CAPITAL COSTS (Including ROI)

Included in this category are the following rate components:

- . Depreciation (except autos)
- . Maintenance and replacement of plant and equipment
- . Rentals of building and equipment (except autos)
- . Interest on all indebtedness
- . Amortization of leasehold improvements
- . Return on equity (or fund balances in the care of nonpropriety homes)
- . Property insurance costs
- . Organization expenses
- . Fees and other expenses incurred in connection with the construction, purchase, alteration or leasing of land, buildings, and fixed equipment
- . Fees and other expenses incurred in the financing or refinancing of the LTCF itself or any of its assets.

The guidelines promulgated herein have been developed with the following objectives and considerations:

- . The Departments should not concern themselves with the method and attendant costs with which individual LTCF'S are financed and constructed or the arrangements under which they are acquired or leased.

- . While not concerning themselves about the costs, financing etc., of individual LTCF'S the Departments mandate with respect to the reasonableness of cost requires it to develop this rate component upon the presumption of reasonable facility costs and prudent financing or leasing arrangements.
- . Private capital should be attracted into the industry with a reasonable rate of return, which should recognize that:
 - .. The existence of the certificate of need process to control the supply of LTCF'S in relation to demand, removes several risks inherent in most enterprise situations.
 - .. Periodic fiscal pressures on states' budgets after impact reimbursements under their Medicaid program, thereby adding an element of risk not present in most free enterprise situations.

The Departments believe that the above objectives can best be met by establishing an aggregate "capital facilities allowance" (CFA) which would replace all of the rate components noted above.

The following considerations will be addressed in determining the CFA:

- . Buildings (See Section J)

- . Land and Land Improvements (See Section K)
- . Equipment (Routine Moveable) (See Section L)
- . Maintenance and replacements (See Section M)
- . Property Insurance (See Section N)
- . Economic occupancy levels (See Section O)

J. BUILDINGS

1. The CFA for buildings and fixed equipment will be based upon appraised 1977 replacement costs less wear and tear, subject to reasonableness limits as described in paragraphs 3, 4, and 5 below.
2. The appraisals are to be conducted by the New Jersey State Department of Transportation.
3. Reasonableness limits on plant square feet will be set at 110% of the median plan square feet per available bed of all proprietary and voluntary LTCF's which had over 20% Medicaid patient days in the base period. LTCF's not substantially complying with current state and federal space requirements or carrying space waivers will be excluded from this calculation.
4. A reasonableness limit on appraised value per square foot will be established at 110% of the median appraised value, at 1977 price levels, of proprietary and voluntary LTCF's which had over 20% Medicaid days in the base period.
5. The reasonable limits as described above will be combined to allow for square feet in excess of that established limit where value per square foot is less than that limit.
 - . Interest rate - equal to the Medicare return on equity rate for the twelve month period ending with December of 1976 (10.719%)
 - . Amortization Rate - equal to the ratio of annual debt service (principal and interest) to original principal required to amortize a loan in 25 equal annual installments, with an interest rate equal to the above-defined

"interest rate". (11.631%)

6. For the first 25 years of the life of a LTCF beginning with the year of construction, the amortization rate will be applied to the 1977 reasonable appraised value of the building and fixed equipment.
7. Beyond the 25th year after construction, the interest rate will be applied to the 1977 reasonable appraised value of buildings and fixed equipment.
8. For LTCF's built in multiple stages, a weighted average year of original construction will be established by weighting licensed beds by the age of the component multiple stages of the building in which the beds are located. Where inequities could result from this calculation, homes with suitable records may request that the weighted average year of construction be calculated based upon plant square feet constructed.
9. For LTCF's with residential and/or sheltered care patients, data relative to common areas will be apportioned to nursing

patients based upon base period licensed beds. After making such apportionments, appraised values will be subject to the reasonableness screens described in paragraphs 3 and 4 and, where applicable, to the weighted average year of construction calculations described in paragraph 8. This proration will not be redetermined for subsequent years in the absence of significant changes in facilities or in patient mix.

10. For LTCF'S which were converted to nursing LTCF'S uses from other uses, the year of conversion will be used provided the conversion costs exceeded the acquisition cost of the building and building equipment. Otherwise, the original year of construction will be used.
11. For existing LTCF'S, the state will not increase the CFA rate in future years should the Medicare return on equity rate increase. Should this rate decrease by more than the reasonable cost of refinancing, both the interest rate and the amortization rate will be reduced. The same adjustments will be made should financing through a state authority be made available at lower interest rates.
12. For new LTCF'S or for additions to existing LTCF'S, the amortization rate will be established based upon the latest Medicare return on equity rate published at the inception of operations. The provisions of paragraph 11 will apply in subsequent years.

13. The Departments will review, on an individual basis, situations where the strict application of the provisions of this section would be inappropriate under particular circumstances, such as:
- . situation where an existing debt must be refinanced in connection with obtaining funds to expand existing LTCF'S
 - . the existence of firm arms-length leases whose terms cannot be modified
 - . the inability of LTCF'S to obtain 25-year financing
14. With respect to new LTCFS and significant additions to existing LTCF'S the CFA will be applied to their appraised value will be determined based upon price levels at the time the construction is completed.

K. LAND

1. The 1977 value of land and land improvements as appraised by the State Department of Transportation will be basis for determining the CFA with respect to land, subject to reasonableness limits as defined for property taxes on land in section F, paragraphs 6 through 9, with respect to
 - . reasonable land area
 - . the total reasonable appraised value of reasonable land area.
2. The interest rate developed per section J paragraph 5 will be applied to the reasonable 1977 appraised value.
3. The provisions of section J paragraphs 11 through 14 will also apply to the CFA for land in years subsequent to 1977.
4. For LTCF'S providing residential or sheltered care, reasonable appraised values for land will be prorated to nursing care patients based upon their proportion of base period total beds. This proportion will not be redetermined in the absence of significant changes in patient mix.

L. MOVEABLE EQUIPMENT

1. The moveable equipment allowance will be based upon the median requirements per bed at 1977 price levels.

This median will be determined by

- . selecting new LTCF'S built since 1969 which had over 20% Medicaid days in the base period.
- . incrementing their original expenditures for moveable equipment to 1977 price levels by applying an appropriate index of inflation in equipment costs
- . converting these inflated expenditures to cost per bed and ranking statewide

2. The allowance per licensed bed will be determined by applying to this median cost the interest rate developed per section J, paragraph 5, 11 and 12.

3. Inasmuch as this allowance will be based upon the current replacement cost of new equipment, it will be deemed to provide for unusually large expenditures for maintaining old equipment (the Departments consider it to be purely a management prerogative as to when to replace, rather than repair, old equipment). A provision for ongoing routine equipment maintenance and replacements will be included in the maintenance and replacements allowance as described in section M below.

M. MAINTENANCE AND REPLACEMENTS (Excluding Motor Vehicles)

An allowance for the maintenance of land, land improvements buildings and equipment and for the replacement of equipment will be developed for each LTCF as follows:

1. Expenditures for this purpose in the base period by voluntary and proprietary LTCF'S with over 20% Medicaid days in the base period will be adjusted to mid-1976 price levels through the application of the inflation factor to reported costs for fiscal years ending prior to December.
2. Homes which were substantially expanded or remodernized during this period will be excluded from calculations described in paragraph 3 below.
3. For the remaining LTCF'S, maintenance and replacement costs per plant square foot at 1976 price levels will be calculated. Mathematical techniques will be used to determine a general formula describing the relationships between expenditures per plant square foot for maintenance and replacements and factors such as age of buildings, estimated building replacement costs etc.

4. The 15% highest and 15% lowest extremes in actual expenditures compared with this general formula will then be removed from further calculations. The same mathematical techniques will then be applied to the remaining 70% of the data to develop the formula to be used to calculate a reasonable allowance for maintenance and replacement for all LTCF'S.
5. Seventy percent of the costs of leasing equipment will be recognized as "maintenance and replacement" costs.
6. Each LTCF'S maximum total allowance per reasonable plant square foot for any one year will be developed by applying this formula to its particular factors and incrementing the result by 10%. No allowance will be provided for plant square feet considered unreasonable per Section F, paragraphs 1 through 3.
7. Base period expenditures in excess of this maximum allowance may be carried forward and applied in future years in which expenditures are below their respective maximum allowances.

Actual expenditures that are below the limits for 1976 and future years, may be carried and applied to excess expenditures in subsequent years. The following example illustrates how two typical LTCF'S would be affected.

<u>YEAR #1</u>	<u>LTCF A</u>	<u>LTCF B</u>
Actual expenditures	\$130	\$ 80
Limit	<u>100*</u>	<u>100</u>
Excess (savings) carried forward	<u>\$ 30</u>	<u>\$ 20</u>
<u>YEAR # 2 - LTCF A</u>	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>
Actual expenditures	\$ 60	\$ 85
Carried forward	+ 30	+ 30
Total eligible	<u>90*</u>	<u>115</u>
Limit	105	-105*
Carried forward to Year #3	<u>\$ 15</u>	<u>\$ 10</u>

N. PROPERTY INSURANCE

An allowance for property insurance will be developed for each home as follows:

1. Base period property insurance costs per dollar of appraised value and per dollar of estimated 1977 replacement costs will be calculated for all voluntary and proprietary LTCF'S.
2. Mathematical techniques will be applied to these data to develop formulas describing the normal relationships between property insurance costs and appraised values and estimated replacement costs. Separate formulas will be developed for urban and nonurban LTCF'S.
3. The procedures described in the paragraph 4 of the preceding section will be used to eliminate extremes and to develop the formula to be used to calculate the reasonableness limit for property insurance.
4. Each LTCF'S reasonableness limit per reasonable plant square foot will be developed by applying this formula to its particular factors and incrementing the result by 10%. No allowance will be provided for plant square feet considered unreasonable per section F, paragraphs 1 through 3.

YEAR # 2. - LTCF BEXAMPLE 1EXAMPLE 2

Actual expenditures		\$120		\$130
Limit	\$105		\$105	
Plus Carried forward	<u>+ 20</u>		<u>+ 20</u>	
Revised limit		<u>-125</u>		<u>-125*</u>
Carried forward to Year #3		<u>\$ (5)</u>		<u>\$ 5</u>

* Included in rates

8. Expenditures for replacements, capitalized maintenance and leases will be prorated to nursing patients, based upon the ratio of nursing square feet (including a prorated share of common areas)* to total plant square feet.

O. TARGET OCCUPANCY LEVELS

1. A target occupancy level of 95% of licensed bed-days (including quiet beds) will be used to develop the reasonable per diem amounts of the following rate components.
 - . Property taxes
 - . Utilities
 - . Special Amortization
 - . CFA for
 - buildings and building equipment
 - land and land improvements
 - moveable equipment
 - maintenance and replacements
 - property insurance
2. The per diem amounts for all other expenses will be based upon reasonable base period costs divided by actual base period patient days.
3. For new facilities an occupancy rate of 80% will be used for provisional rates during the first year of its operation subject to retroactive adjustments to actual occupancy, should it exceed 80% (but no higher than 95% will be used).
4. If base period patient days exceed licensed bed days calculated per paragraph #1, then the target occupancy will be entered at 95% of actual base period patient days.
5. For the purpose of implementing this section, 95% occupancy will be set at 347 days per year ($.95 \times 365.25 = 346.99$).

P. RESTRICTED FUNDS

Where donor restricted funds have been expended for operating purposes and, accordingly have been reported as an expense recovery/elimination, the availability and use of such funds will not be taken into account in establishing rates to the extent that they produce actual unit costs below the median unit costs and LTCF'S developed for determining reasonableness. (It should be noted that the availability or use of such funds will not be taken into account at all with respect to CFA calculations).

The intent of this provision is to exclude, in screening, expenditures made from donor-restricted funds, but not to "appropriate" such funds where they result in net costs below the median.

Q. ADJUSTMENTS TO BASE PERIOD DATA

As described in previous sections of these guidelines, with the exception of capital items, rates will be based substantially upon reasonable actual base period costs. This section provides for adjustments to reasonable base period costs in establishing prospective rates.

1. Appropriate adjustments will be made to reasonable base period costs for the effect of changes between the base period and the prospective rate period in
 - . state or federal standards of care
 - . definitions of "routine patient care services" reimbursable in Medicaid per diems
 - . limitations on total or per diem amounts of special patient care services reimbursable in Medicaid per diems
2. LTCF'S may also request that costs in addition to base period expenditures be included in the prospective rates owing to
 - . actions mandated by governmental authorities and/or approved by same in the certificate of need process ("legal" changes)
 - . desires to increase the quality of care above that attainable at base period cost levels ("management" changes)

3. With respect to requests for management changes, the Departments will take the position that it is not a prerogative of a rate setting body to unilaterally make or amend social policies, especially with respect to the appropriateness of current allocations of state resources to the care of indigent LTCF patients. Accordingly, in the absence of other compelling reasons, management changes will be approved only in areas where quality has been found to be marginal by Health Facilities Inspection and actual costs are commensurately low.
4. Where legal and management changes have been approved and the approved costs are not expended in the prospective rate period, the unspent amount will be recovered from the LTCF.
5. In the case of significant items, the Department may elect to exclude the effects of legal and management changes from rates until the change is effected, and if necessary, new appraisals made.

R. INFLATION

1. A provision will be added to reasonable base period costs to provide for inflation/deflation between the base period and the prospective rate period. Changes in two factors will be used to develop this provision..
 - . Average hourly earnings of manufacturing employee in New Jersey as published by the Bureau of Labor Statistics (weighted 60%)
 - . The Consumer Price Index as published by the Bureau of Labor Statistics (weighted 40%)
2. Should the economic factor as developed for hospitals include a provision for changes in legally mandated fringe benefits, a similar provision will be included in prospective nursing LTCF rates.
3. If, for reasons beyond the control of a LTCF, rates have not been redetermined within three months after receipt of its reports, an interim adjustment for inflation may be made to existing rates for cash flow purposes. The inflation increment would be based upon the number of months from the midpoint of the current rate period to the beginning point of the new rate period. The interim rate will be subject to a retroactive adjustment to the beginning of the prospective rate period upon determination of the approved rate

via the methodology described in these Guidelines.

4. LTCF's may also request interim adjustments to rates during a prospective rate period for either legally mandated matters or for extraordinary factors beyond their control. Such adjustments, if approved, would not apply retroactively unless, for reasons beyond the control of the LTCF, costs are affected retroactively.
5. No provision for inflation will be made with respect to the CFA for buildings, land, and moveable equipment, nor to special amortization.

S. WORKING CAPITAL PROVISION AND TOTAL RATES

Following the additions of the provision for inflation (Section R), and approved legal and management changes, a working capital provision will be added to rates as follows:

1. The state's planned timetable for reimbursing LTCF'S for the care of Medicaid patients will be converted into an average expected days of accounts receivable.
2. This result will
 - . be divided by 365
 - . multiplied by the Medicare return on equity rate for the twelve month period ending on the previous December
 - . multiplied by the percentage of total revenues for Medicaid patients reimbursed by the state
3. This result will be multiplied by the rates developed for each class of patient to develop the working capital provision for that patient class.
4. Unless the Division of Medical Assistance and Health Services prescribes different limits for patient care services other than for routine nursing care, the rate components for each class of patient will be the same except for the nursing care component and the related working capital provision as it is affected by this component.

5. Rates will be limited to the lowest rate charged to private pay patients.

T. APPEALS PROCESS

Where a LTCF believes that, owing to an unusual situation, the application of these guidelines results in an equity, the home may appeal the rate component(s) affected by the unusual situation(s). Appeals should be submitted in writing to the Department of Health, Health Economics Services within 30 days of the notification of rates. Two levels of appeals are available to LTCF's.

Level I - The first level of appeals will be heard by analysts from the Department of Health, and supervisory level representatives from the Department of Health and the Department of Human Services, as required. LTCF's should be prepared to provide such substantiating material as may be required for an informal discussion of the subject matter. Level I appeals will endeavor to reach equitable resolutions of matters peculiar to individual LTCF's. They will not be expected to resolve items which have policy implications or broad applicability. The Analysts' resolutions will first be reviewed at appropriate levels within the Department of Health, Health Economics Services and will then be forwarded to the Director, Division of Medical Assistance and Health Services.

Administrative Law Judge - If a LTCF is not satisfied with the results of the Level I appeal, (the LTCF must demonstrate that the Level I ruling resulted in gross inequities), an appeal may be heard by an Administrative Law Judge. Re-

requests for an Administrative hearing must be submitted in writing to the Department of Health. The Department of Health will notify the facility of the particular requirements for scheduling the hearing. The hearing will be scheduled by the Office of Administrative Law.

Adjustments resulting from the appeals will be effective:

- . The beginning of the prospective reimbursement period if an error in computation was made by the Department or if the appeal was submitted within the specified period.
- . The first of the month following the date of appeal for non-computational matters if the appeal is submitted after the specified period.

The date of submission is defined as the date received by the Department.

CARE

SECTION "D"

RATES

This section of the CARE manual describes the detailed method by which rates are calculated for LTCF'S in accordance with the Guidelines incorporated in the "RULES" section of the CARE Manual. The reader should refer to the applicable sections of the Guidelines for a fuller understanding of this methodology.

RATES - SECTION D1

Fringed and Equilized Costs

In accordance with Section C of the Guidelines, cost data furnished by LTCF'S are adjusted as follows:

(a) Dietary Adjustments are calculated to determine the fringe benefit value of free and subsidized employee meals. For this purpose, it is assumed that patients eat the equivalent of three employee meals. An average food cost per meal is then developed by dividing total meals into total reported raw food costs. A fringe benefit per meal is imputed to the extent that the average price charged employees for a meal is less than raw food costs per meal. The benefit per meal is then converted into total dollars by multiplying the benefit per meal by the number of employee meals served.

ILLUSTRATION

Patient Days (30,000) x 3 =	90,000
Estimated meals served to employees	<u>30,000</u>
Estimated total meals	120,000
Reported food costs	\$ 72,000
Food cost/meal (72,000/120,000) =	.60
Imputed fringe benefit (.60 x 30,000) -	\$ 18,000

The estimated fringe benefit (\$18,000) is then imputed as

- . a fringe benefit
- . an expense recovery in the FOOD cost center (as though employees were paying the equivalent of actual food costs for their meals)

(b) Fringe Rates are next calculated for each home. For this purpose, fringe benefits are the total of:

- . Fringe benefits reported in the GFRB cost center
- . Dietary adjustments per the above calculations

This total is then divided by total salaries reported in the "Salary" column of Form A, exclusive of amounts reported in the GFRB center itself and amounts reported for contracted nursing services.

ILLUSTRATION

Total fringes reported in GFRB center	\$78,000
Dietary adjustments (imputed)	<u>18,000</u>
Total fringe benefits	96,000
Salaries (excluding contracted personnel)	\$600,000
Fringe benefit rate $(96,000/600,000) =$	16%

(c) Fringe Factors are simply 1.00 plus the fringe rate. In the above example, the LTCF would have a fringe factor of 1.16.

(d) Compensation or "Fringed Compensation", is the total cost of labor including fringe benefits. It is calculated by multiplying reported salaries by the fringe factor for each LTCF (except for contracted nursing salaries). The net effect of calculating "compensation" is to allocate fringe benefits to each center in proportion to its reported salaries. No dollars then remain in the GFRB cost center.

ILLUSTRATION

Salaries reported in cost center ABCD	\$50,000
Fringe Factor	1.16
Compensation $(\$50,000 \times 1.16) =$	\$58,000

(e) Fringed LTC Costs are the total costs including fringes applicable to long term intermediate and skilled care patients. For homes with no residential, sheltered, domiciliary, etc. patients, it is the total costs reported in each center plus the applicable fringe benefits. In other words, it is the net amount of

- Compensation (salaries and fringes), plus
- Fees and other expenses, less
- Recoveries and eliminations (including dietary adjustments)

ILLUSTRATION (for cost center ABCD)

	<u>Reported</u>	<u>Fringed LTC Costs</u> *
Salaries	\$50,000	- -
Compensation	--	\$58,000
Fees and Other Expenses	10,000	10,000
Recoveries and Eliminations	(8,000)	(8,000)
Net Total	\$52,000	\$60,000

For homes with residential, etc. care patients, fringed costs are prorated to "applicable LTC patients" in the same proportion reported by the home for the proration of reported actual costs.

ILLUSTRATION

Reported total cost center costs	\$100,000
Reported applicable to LTC patients	80,000
% applicable to LTC patients	80%
Cost center costs including fringes	\$110,000
Fringed LTC costs (80% x \$110,000) =	\$ 88,000

* See EDP print-out, EQ-55

(f) Salary Regions within the State are developed in order to recognize the existence of geographic compensation differentials in comparing and analyzing reported cost data. Prevailing compensation rates within any one region are comparable. Each home is assigned to a salary region based only on its geographic location. Its actual compensation rates are not considered in making its salary region assignment.

(g) Equalization Factors are developed for salary regions. The factor for each region is based upon the ratio of the median compensation rate of the entire state to the median rate within that region. Salary data reported for nursing, dietary, laundry and housekeeping personnel (plus fringes) are used in developing equalization factors.

ILLUSTRATION

Median compensation rate for the state	\$4.40
Median compensation rate for region #1	4.00
Equalization factor for region #1 $(4.40/4.00) =$	1.10

In equalizing costs for comparison purposes, the compensation (salaries plus fringe benefits) of all LTCFs in region #1 would be multiplied by 1.10 to make costs comparable to homes in other regions.

(h) Equalized Compensation is compensation adjusted for the equalization factor applicable to the salary region of the home (see illustration under (j) - "Equalized Costs").

(e) Fringed LTC Costs are the total costs including fringes applicable to long term intermediate and skilled care patients. For homes with no residential, sheltered, domiciliary, etc. patients, it is the total costs reported in each center plus the applicable fringe benefits. In other words, it is the net amount of

- . Compensation (salaries and fringes), plus
- . Fees and other expenses, less
- . Recoveries and eliminations (including dietary adjustments)

ILLUSTRATION (for cost center ABCD)

	<u>Reported</u>	<u>Fringed LTC Costs</u> *
Salaries	\$50,000	- -
Compensation	--	\$58,000
Fees and Other Expenses	10,000	10,000
Recoveries and Eliminations	(8,000)	(8,000)
Net Total	\$52,000	\$60,000

For homes with residential, etc. care patients, fringed costs are prorated to "applicable LTC patients" in the same proportion reported by the home for the proration of reported actual costs.

ILLUSTRATION

Reported total cost center costs	\$100,000
Reported applicable to LTC patients	80,000
% applicable to LTC patients	80%
Cost center costs including fringes	\$110,000
Fringed LTC costs (80% x \$110,000) =	\$ 88,000

* See EDP print-out, EQ-55

At the end of 1977, the costs reported for LTCF #2 for the fiscal year ending March 31, 1977 will be inflated (assuming positive inflation) to average 1977 price levels for the purposes of establishing the following year's screens. That is, nine months of inflation will be applied to its cost data, but only for the purpose of annually updating screens - not for screening that home's costs.

(j) *Equalized Costs are fringed LTC costs (See paragraph (e) above) adjusted for

- . equalization of compensation
- . inflation

ILLUSTRATION (LTCF #2, Center ABCD)

Salaries as reported	\$50,000
Fringe Factor, per (c) above	1.16
Fringed compensation, per (d) above	58,000
Equalization factor, per (g) above	<u>1.10</u>
Equalization compensation (58,000 x 1.10) =	63,800
Reported fees and other expenses	10,000
Less Recoveries and Eliminations	(8,000)
Adjusted costs	65,000
Inflation factor	<u>.9850</u>
Equalized costs (65,000 x .9850) =	<u>64,813</u>

*See EDP print-out, EQ-53

RATES - SECTION D2

Long Term Care Facility Rate Summary Schedule

Historical LTCF Cost - Screened

This schedule summarizes the build-up of per diem Medicaid rates by level of care. The individual rate components are developed on Schedules O through T and carried forward to the Rate Summary Schedule are referenced on this form.

Operating Costs Applicable to All Patients (Lines A-I)

The per diem amounts on Lines A through I are based upon each LTCF'S actual costs or expenditures during the reporting period for which the most recent cost report was submitted, subject to reasonableness limitations as set forth in the Guidelines. The application of these reasonableness tests to each LTCF is accomplished as indicated on the supporting Schedules O through T.

The per diem amounts for General Services (Line A) and for Special Patient Care Services (Line G) are based upon actual patient days. The per diem amounts for all other preprinted centers (Line B through F) are based upon a target occupancy rate of 95% (347 patient days per year per licensed bed).

Capital Facilities Allowance (CFA)

The CFA for buildings and land is based upon appraisals performed by the New Jersey Department of Transportation, tested for reasonableness as defined in the Guidelines (Sections F, J and K) and as calculated on supporting Schedules P and Q respectively. No actual cost data from a given LTCF is used in determining its CFA.

The CFA for original equipment (Line L) provides a return to each LTCF for its original (or "permanent") investment in moveable equipment, assuming a normal or reasonable investment in equipment, as set forth in Section L of the Guidelines and as calculated on Line A of supporting Schedule T.

The CFA is applied equally to all patient care levels. The per diem amounts are based upon a target occupancy rate of 95%.

Effective Rates by Care Level (Lines N-S)

The only differences in payment rates for three levels of care are cost differences attributable to nursing requirements. For this purpose, reasonable nursing costs are ascribed to care levels in relation to their respective minimum state standard nursing requirements, i.e. 1.25 hours for ICF-B, 2.50 hours for ICF-A and 2.75 hours for skilled nursing. Reasonable per diem base period nursing costs are developed by level of care on supporting Schedule R and carried forward to Line O of the Rate Summary Schedule.

RATES - SECTION D2

Long Term Care Facility Rate Summary Schedule

Historical LTCF Cost - Screened

This schedule summarizes the build-up of per diem Medicaid rates by level of care. The individual rate components are developed on Schedules O through T and carried forward to the Rate Summary Schedule are referenced on this form.

Operating Costs Applicable to All Patients (Lines A-I)

The per diem amounts on Lines A through I are based upon each LTCF'S actual costs or expenditures during the reporting period for which the most recent cost report was submitted, subject to reasonableness limitations as set forth in the Guidelines. The application of these reasonableness tests to each LTCF is accomplished as indicated on the supporting Schedules O through T.

The per diem amounts for General Services (Line A) and for Special Patient Care Services (Line G) are based upon actual patient days. The per diem amounts for all other preprinted centers (Line B through F) are based upon a target occupancy rate of 95% (347 patient days per year per licensed bed).

RATES - SECTION D3

General Service Summary - Schedule O

This schedule develops reasonable general service per diem costs applicable to patients requiring intermediate and skilled nursing care.

Guideline references: Section D, E, J

General Service Costs are costs reported in Column G ("Expenses Applicable to Long-Term Care") on lines 2 through 10 of Reporting Schedule A in the block captioned "GENERAL SERVICES" Expenses applicable to residential or sheltered care are excluded.

The cost centers comprising "General Services" are

- . Management
- . Administrator
- . Other Administrative
- . Dietary
- . Food
- . Laundry and Linen
- . Housekeeping
- . Other General Services

Equalized Costs are reported "Expenses Applicable to Long-Term Care" adjusted for fringe benefits, geographic compensation differentials and timing differences (inflation) between the fiscal year end of each home and the most recent December year end.

(For homes with fiscal years ending in December, there are no inflation adjustments since reasonableness limits are calculated based upon price levels experienced by homes with December year-ends). Refer to Section D1 above under "Rates" for an outline of the process by which costs are equalized.

Fringed LTC Costs are reported "Expenses Applicable to Long-Term Care" plus applicable fringe benefits. Refer to Section D1 for an outline of the process by which Fringed LTC Costs are calculated (fringed LTC costs do not include adjustments for inflation or regional compensation differentials).

Per Diem amounts are calculated by dividing dollars by actual LTC patient days (excluding residential, etc.) as reported by each LTCF.

Calculating Unreasonable Costs

Equalized costs for each LTCF are compared with reasonableness limits ("screens") developed from equalized base period cost data for proprietary and voluntary homes, per the Guidelines. Unreasonable ("excess") equalized costs are calculated and then converted to Fringed LTC costs so that each LTCF'S rates are based upon its own reported data exclusive of the inflation and geographic & compensation differential adjustments made in equalizing its costs.

For example, if on an equalized basis, 10% of costs are considered unreasonable, then 10% of Fringed LTC Costs are then considered unreasonable. Or in other words, if Fringed LTC costs equal 97% of Equalized Costs, then excess Fringed LTC Costs equal 97% of excess Equalized Costs.

Raw Food relates to the FOOD cost center expenses net of any "Dietary Adjustments" calculated for providing free and subsidized

meals to employees as described in Section D-1 above. A separate screen is applied to these costs as set forth in Section D of the Guidelines.

Nonfood relates to all other General Service Costs exclusive of Food Administrator, Assistant Administrator and Management Costs.

Line F determines the amount of any Nonfood General Service excess.

The Guidelines also permit trade-offs between excess food costs and efficiencies in Nonfood general service costs. Accordingly, a credit may be entered. Nonfood General Service Costs are below the reasonable limit where an excess raw food cost is indicated. Any such credit is limited to the amount of raw food cost excess. It should be noted that this credit also adjusts for potential inequities in the FOOD screen created by the contracting of patient feeding.

Legal Fees are expenses reported for allowable legal services included in Non-Food General Service. Line I determines the excess of Actual Costs over the reasonable limit. In calculation of the total General Services Challenge, the higher of Line I or Line F is used.

Administration includes the costs of Management, Administrator, and Assistant Administrator. Line L determines the excess costs of Administration.

Summary Including Food is calculated in terms of Fringed LTC Costs as indicated on the form. The per diem amount on Line O is carried forward to Line A of the Rate Summary Schedule.

RATES - SECTION D4

Building CFA and Taxes - Schedule P

Schedule P calculates the Capital Facility Allowance (CFA) for buildings and fixed equipment and reasonable building property taxes that are incorporated in rates.

Guidelines references: Sections F, I, J

Long Term Care Square Feet (Lines A-E)

Lines A through E on this Schedule (P) calculate that portion of plant square feet that are applicable to long term nursing care patients. They apply only to homes which provide residential and other care.

In accordance with Section J-9 of the Guidelines, "common" areas (applicable to both nursing and residential patients) are prorated to LTC patients based upon the ratio of licensed LTC beds to total beds.

Reasonable Appraised Value of Total LTC Square Feet (Lines F-J)

The total DOT building appraisal is divided by total plant square feet to determine the appraised value per square foot. The lower of actual value per square foot or the reasonable limit is multiplied times total long term care square feet to determine the reasonable value of LTC square feet (Line J).

Appraisal Limit (Lines K-M)

An appraisal limit is developed based on a combination of established limits for reasonable square feet per bed and reasonable value per square foot.

Reasonable Value and Area (Lines N-P)

Line N represents the total appraised value considered reasonable for Medicaid Rate reimbursement purposes. Excluded from the CFA are areas applicable to residential, etc., patients, including an appropriate portion of common areas and areas in excess of the reasonable limit per bed.

The appraisals used are net of wear and tear.

Line O simply calculates the percentage of total appraised value considered reasonable. Line P represents the reasonable long term care square feet related to the reasonable LTC value.

CFA (Line Q)

The building portion of the CFA is calculated on this line in accordance with Sections J-5 through J-8 of the Guidelines.

Property Taxes (Lines R and S)

In accordance with Sections F-4 and F-5 of the Guidelines, building taxes included in rates are limited to those applicable to the reasonable appraised values of buildings as it relates to LTC patients. The percentage of total appraised value for this purpose is calculated on Line O.

Line S is the result of applying the percentage from Line Q to the total building taxes.

Appeals

As mentioned in the Guidelines, the Department of Health will review, on an individual basis, any inequities which owners believe are brought about by unusual circumstances over and above those which are not reasonably covered by the 10 percent tolerances permitted in developing screens.

Per Diem at 95 Percent Occupancy (Lines T and U)

The per diem amounts of these two rate components are developed at a target occupancy of 95 percent in accordance with Section O of the Guidelines. Target occupancy is 347 patient days per licensed bed, i.e., 95 percent of 365.25 days.

Nursing Costs - Schedule R

Guideline reference: Section H

Minimum Hours Worked Required

This determination is made by applying minimum state nursing staffing requirements to the reported patient days by care level during the base period, subject to minimum total requirements of eight (8) RN hours, 16 LPN hours, and 24 Aide hours per calendar day for any LTCF regardless of actual patient days.

Except for smaller homes where the above calendar day minimum requirements apply, the minimum hours worked required are calculated by multiplying actual patient days for each level of care by the following standard hours per patient day and accumulating the results for RNs, LPNs, and Aides.

	<u>SNF</u>	<u>ICF-A</u>	<u>ICF-B</u>
RNs	.34	.31	.10
LPNs	.11	.15	.11
Aides	<u>2.30</u>	<u>2.04</u>	<u>1.04</u>
TOTAL	2.75	2.50	1.25

Hours will also be adjusted to reflect unit staffing and requirements imposed for individual facilities where applicable.

Rate Factor

The rate factor entered for each class of nursing personnel is a statewide equalized hourly rate which includes the following factors:

- . The statewide equalized median compensation rate per hour including fringes, adjusted to price levels as of the middle of the base period calendar year.
- . A provision for pay for time not worked (vacations, holidays, paid sick leave) using statewide median data for the percentage of nursing hours paid to hours worked.
- . A percentage latitude above this amount in accordance with paragraph D-6 of the Guidelines.

Equalized Cost Limit (Line D)

On Lines A, B, and C, the minimum hours by class of nursing personnel are extended by the applicable rate factors, and the total is entered on Line D. Inasmuch as the rate factors used are equalized for timing differences (inflation) and geographic compensation differentials, the reasonable cost limit on Line D is in terms of equalized costs.

Unequalized Cost Limit (Line G)

On Lines E and F are the inflation and equalization factors applicable to each individual LTCF. They are used to convert the equalized limit (Line D) to the unequalized limit (Line G) appropriate to each LTCF's reporting period and geographic location. The unequalized limit includes fringe benefits.

RATES - SECTION D5

Land - Capital Facility Allowance and Taxes (Schedule Q)

This schedule develops the Capital Facilities Allowance (CFA) for land and reasonable property taxes on land.

Guideline reference: Sections F, J-5, K

Appraised Value of Reasonable Area (Lines A-E)

Line C calculates the percentage of land area used in nursing operations that is considered reasonable in accordance with Section F-6 of the Guidelines. (The land area for each LTCF is that reported by the New Jersey Department of Transportation-DOT). If the actual land area is below the reasonableness limit, all of the area is considered reasonable.

Line E is the appraised value of the reasonable area, calculated by applying the percentage of land area considered reasonable (Line C) to the total appraised value (Line D).

For example, if the actual area used in nursing operations is ten (10) acres and the reasonable limit is five (5) acres, then only 50 percent of the total appraised value of the land would be considered reasonable.

Reasonable Appraised Value of Reasonable Area (Lines F-J)

After making any adjustments to the total appraised value owing to unreasonable land area per Lines A-E, the appraised value of Reasonable Area (Line E) is then tested for reasonableness in accordance with Section F-8 of the Guidelines. On Line H is entered the Reasonable Appraised Value of the land used in nursing operations.

This value is then prorated to LTC patients based upon the ratio of LTC Beds to Total Beds as calculated on Line I in accordance with Section K-4 of the Guidelines.

The Reasonable Appraised Value for LTC Patients (Line J) serves as the basis for:

- determining reasonable land property taxes as they relate to LTC patients
- calculating the CFA for land

Reasonable Property Taxes (Lines K-P)

Lines K through P determine the portion of total land property taxes that are reasonable for inclusion in rates for LTC patients as indicated by the calculations under "Source." The net effect of the calculations through Line P - "Reasonable Property Taxes for LTC Patients" is to exclude on a pro rata basis any land taxes relating to:

- areas not used in nursing operations as determined by the Department of Transportation-DOT (Lines A,K,L)
- unreasonable land area used in nursing operations (Lines A, B, C)
- unreasonable appraised values of reasonable land area (Lines F, G, H)
- the pro rata share of land area and value that is allocable to other than LTC patients (Lines I,J)

It should be noted that tax rates themselves are not addressed with respect to their reasonableness - only the areas and values to which they are applied.

CFA - Land (Line Q)

In accordance with the Guidelines, the Capital Facility Allowance for Land is calculated at 10.719 percent times the Reasonable Appraised Value for LTC Patients.

Per Diem Amounts at 95 Percent Occupancy

As with the comparable building components, the per diem amounts are developed at a target occupancy of 95 percent, or 347 days per licensed bed.

Reasonable Costs in Rates (Line I)

Included in rates per Line I are the actual fringed nursing costs from Line H subject to the unequalized cost limit on Line G. The costs on Line H are reported LTC costs in the six salaried and contracted nursing cost centers plus applicable fringe benefits (that is, costs reported on Schedule A, Column G "Expenses applicable to Long-Term Care" for cost centers RNs, RNCT, LPNs, LPCT, OSAL, OSCT).

Weighted Actual Patient Days (Line J)

Weighted patient days are developed in terms of equivalent ICF-A days. Each ICF-A day is counted as one weighted patient day. The weights assigned to SNF days and ICF-B days are developed from their minimum nursing care requirements in relation to ICF-A days as follows:

$$\text{SNF weight} = 2.75/2.50 = 1.1$$

$$\text{ICF-B weight} = 1.25/2.50 = 0.5$$

The Weighted Actual Patient Days (Line J) are calculated by multiplying actual reported patient days by these weights and accumulating the results.

Reasonable Costs Per Diem (Lines K, L, M)

By dividing the reasonable total nursing costs in rates (Line I) by weighted actual patient days (Line J), the reasonable ICF-A costs per diem for SNF and ICF-B patients are then calculated by applying the same weighting factors (1.1 and 0.5, respectively) that are used in developing weighted actual patient days.

RATES-D7

Utilities, Insurance, Special Patient Care Services - Schedule S

The CFA rates for each of these costs will include the lower of:

- actual expenditures (fringed) for the reporting period, or
- a reasonableness limit established per the Guidelines

(Section C of the CARE Manual).

The reasonableness limit for utilities is based upon licensed LTC beds.

The reasonableness limit for insurance is based upon reasonable appraised value of buildings as calculated on Line P of Schedule P. Separate limits per \$1,000 of appraised value are developed for urban and nonurban LTCFs.

The reasonableness limit for each special patient care service on Schedule S is based upon total LTC days.

All limits are established in terms of equalized costs (see Section D1 of this manual) and compared against each LTCFs equalized costs.

Where an LTCFs equalized cost exceeds the limit, a ratio is calculated equal to the equalized limit divided by equalized actual costs. For example:

- If the reasonableness limit (equalized) is \$40,000, and
- an LTCFs equalized cost is \$50,000,
- then 80 percent ($40,000/50,000$) of that LTCFs costs are considered reasonable for CFA rates
- If that LTCFs actual unequalized (i.e., fringed LTC costs) are \$52,000,
- then 80 percent x \$52,000 or \$41,600 will be included in CFA rates.

Where an LTCFs actual equalized cost is less than the equalized limit, then the CFA rates will include all actual costs.

Property Operating Costs

Property operating costs include Maintenance, Utilities, Property Insurance and Property Taxes which are considered fixed, i.e., not affected by actual occupancy. These costs are converted into per diem amounts at a target occupancy rate of about 95% or 347 patient days per bed. These costs are considered equally applicable to all patient care levels.

General Service and Patient Care Costs

General Service includes costs reported on lines 2-9 on Schedule A of the Long Term Care Cost Study. Special patient care includes costs reported on lines 28-34 on Schedule A. These costs are converted to a per diem amount based upon total reported LTC days.

From this per diem, Administration and Legal fee excesses, as calculated according to Section D3-3, are eliminated.

Summary

Nursing, Property Operating, General Service and Special Patient Care Costs are increased for the effects of inflation based upon inflation as measured from the midpoint of the reporting period to the midpoint of the payment period (i.e., the period during which these rates are to apply). To these amounts, is added the per diem calculated for Fixed Property Costs resulting in per diems for skilled, ICF-A and ICF-B levels of care.

RATES - SECTION D8

Maintenance and Replacements - Schedule U

This schedule calculates reasonable expenditures for maintenance and replacements (M & R) for inclusion in CFA rates. It also calculates the amount of over/under expenditures that may be carried forward to the following year.

Eligible Expenditures

Eligible M & R expenditures include:

- Certain capital expenditures and leasing costs as defined on Line A of Schedule U, prorated where appropriate to LTC patients based upon the ratio of LTC plant square feet to total plant square feet (Line B).
- Fringed maintenance costs applicable to LTC patients as defined on Line C.
- A carryover of expenditures in the previous year that were in excess of the amount included in the previous year's CFA rates. (If the previous year's expenditures were under that year's limit, the underexpenditure adds to the reasonableness limit per Line H).

Reasonableness Limit

Reasonableness limits have been calculated statewide per plant square foot and adjusted for geographic wage differentials to provide for individual limits per plant square foot for each salary region. These limits are calculated at average price levels prevailing for the prior calendar year (using "equalized" costs as explained in Section D1 of this manual).

RATES-SECTION D9

Historical LTCF Cost

This schedule applies to all LTCFs whose rates are based upon historical costs as explained in the introductory page to Section D of this manual.

The cost centers comprising the amounts of each line of this schedule are noted in parenthesis, using the four-digit abbreviation for each center that is entered on reporting Schedule A.

All costs entered on each line include fringe benefits, which have been calculated and allocated to centers as displayed on EDP report EQ-55. Costs applicable to other than skilled and ICF patients are excluded. (The costs entered on the Historical Cost Summary are "Fringed LTC Costs" as described in Section D1 of the CARE Manual, Pages D1 through D1-3).

Fixed Property Costs

Fixed property costs are property related costs (depreciation, special amortization, leases, interest and return on equity) which are not affected by actual occupancy. These costs are converted into per diem amounts at a target occupancy rate of 95% as 347 patient days per year per bed.

Lines A through C are fixed LTC costs for the cost centers indicated.

Line D calculates a return on plant equity for proprietary facilities. Equity details are provided on page 2 of the rate schedule.

Lines G and H calculate target patient days and convert total fixed property costs into a per diem amount on this basis. These costs are considered equally applicable to all patient care levels.